

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

Commission File Number 001-15877



German American Bancorp, Inc.

GERMAN AMERICAN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Indiana

35-1547518

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

711 Main Street, Box 810, Jasper, Indiana

47546

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (812) 482-1314

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class
Common Shares, no par value

Trading Symbol(s)
GABC

Name of each exchange on which registered
Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☒

Accelerated filer

☐

Non-accelerated filer

☐

Smaller reporting company

☐

Emerging growth company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

☐ Yes ☒ No

The aggregate market value of the registrant's common shares held by non-affiliates as of June 30, 2019 was approximately \$703,623,038. This calculation does not reflect a determination that persons are (or are not) affiliates for any other purpose.

As of February 20, 2020, there were outstanding 26,671,368 common shares, no par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of German American Bancorp, Inc., for the Annual Meeting of its Shareholders to be held May 21, 2020, to the extent stated herein, are incorporated by reference into Part III (Items 10 through 14).

GERMAN AMERICAN BANCORP, INC.
ANNUAL REPORT ON FORM 10-K
For Fiscal Year Ended December 31, 2019

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GLOSSARY OF TERMS AND ACRONYMS

As used in this Report, references to “Company,” “we,” “our,” “us,” and similar terms refer to German American Bancorp, Inc. and its consolidated subsidiaries as a whole. Occasionally, we will refer to the term “parent company” or “holding company” when we mean to refer to only German American Bancorp, Inc. and the term “Bank” when we mean to refer only to German American Bank, the Company’s bank subsidiary.

The terms and acronyms identified below are used throughout this Report, including the Notes to Consolidated Financial Statements. You may find it helpful to refer to this Glossary as you read this Report.

2009 ESPP:	German American Bancorp, Inc. 2009 Employee Stock Purchase Plan
2009 LTI Plan:	German American Bancorp, Inc. 2009 Long-Term Equity Incentive Plan
2019 ESPP:	German American Bancorp, Inc. 2019 Employee Stock Purchase Plan
2019 LTI Plan:	German American Bancorp, Inc. 2019 Long-Term Equity Incentive Plan
AOCI:	Accumulated other comprehensive income
ASU:	Accounting Standards Update
Basel III:	Regulatory capital reforms agreed to by the Basel Committee on Banking Supervision, as reflected in the final rule issued by the FRB and OCC and published in the Federal Register on October 11, 2013
BHC Act:	Bank Holding Company Act of 1956, as amended
BSA:	Bank Secrecy Act (Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act of 1970)
CBLR:	Community bank leverage ratio
CECL:	Current expected credit losses
CET1:	Common Equity Tier 1 Capital
CFPB:	Consumer Financial Protection Bureau
Citizens First:	Citizens First Corporation
CMO:	Collateralized mortgage obligations
CRA:	Community Reinvestment Act of 1977
DFI:	Indiana Department of Financial Institutions
DIF:	Deposit Insurance Fund of the FDIC
Dodd-Frank Act:	Dodd-Frank Wall Street Reform and Consumer Protection Act
Economic Growth Act:	Economic Growth, Relief and Consumer Protection Act of 2018
ERISA:	Employee Retirement Income and Security Act of 1974
FASB:	Financial Accounting Standards Board
FDIC:	Federal Deposit Insurance Corporation

FDICIA:	Federal Deposit Insurance Corporation Improvements Act
FHLB:	Federal Home Loan Bank
First Security:	First Security, Inc.
FRB:	Board of Governors of the Federal Reserve System
GAAP:	Generally Accepted Accounting Principles in the United States of America
GLB Act:	Gramm-Leach-Bliley Financial Modernization Act of 1999
LIBOR:	London Interbank Offered Rate
MBS:	Mortgage-backed securities
NPV:	Net portfolio value
OCC:	Office of the Comptroller of the Currency
OFAC:	U.S. Treasury Department Office of Foreign Assets Control
OTTI:	Other-than-temporary impairment
PCAOB:	Public Company Accounting Oversight Board (United States)
SEC:	Securities and Exchange Commission
Tax Act:	Tax Cuts and Jobs Act of 2017
USA Patriot Act:	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001

Information included in or incorporated by reference in this Annual Report on Form 10-K, our other filings with the Securities and Exchange Commission and our press releases or other public statements, contain or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to a discussion of our forward-looking statements and associated risks in Item 1, “Business - Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” in this Annual Report on Form 10-K.

PART I

Item 1. Business.

General

German American Bancorp, Inc. is a NASDAQ-traded (symbol: GABC) financial holding company based in Jasper, Indiana. German American, through its banking subsidiary German American Bank, operates 75 banking offices in 20 contiguous southern Indiana counties, eight Kentucky counties and one county in Tennessee. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

The Company was formed in 1982 as a bank holding company under the Bank Holding Company Act of 1956, as amended. Effective September 24, 2019, the Company elected to be a “financial holding company” as permitted under the Gramm-Leach-Bliley Act of 1999, as amended. As a financial holding company, the Company is generally permitted to engage in certain otherwise prohibited nonbanking activities and certain other broader securities, insurance, merchant banking and other activities that the Board of Governors of the Federal Reserve System (the “FRB”) has determined to be “financial in nature,” or are incidental or complementary to activities that are financial in nature, without prior approval from the FRB (subject to certain exceptions). Upon becoming a financial holding company, we began operating GABC Risk Management, Inc., a wholly-owned subsidiary, as a pooled captive insurance company subsidiary to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

Throughout this Report, when we use the term “Company”, we will usually be referring to the business and affairs (financial and otherwise) of German American Bancorp, Inc. and its consolidated subsidiaries as a whole. Occasionally, we will refer to the term “parent company” or “holding company” when we mean to refer to only German American Bancorp, Inc. and the term “Bank” when we mean to refer only to the Company’s bank subsidiary.

The Company’s lines of business include retail and commercial banking, comprehensive financial planning, full service brokerage and trust administration, and a full range of personal and corporate insurance products. Financial and other information by segment is included in Note 16 (Segment Information) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and is incorporated into this Item 1 by reference. Substantially all of the Company’s revenues are derived from customers located in, and substantially all of its assets are located in, the United States.

Subsidiaries

The Company’s principal operating subsidiaries are described in the following table:

Name	Type of Business	Principal Office Location
German American Bank	Commercial Bank	Jasper, IN
German American Insurance, Inc.	Multi-Line Insurance Agency	Jasper, IN
German American Investment Services, Inc.	Retail Brokerage	Jasper, IN

Effective April 1, 2018, the legal name of German American Bank was changed from German American Bancorp to its current name. The new name corresponds with the trade name already being used by the banking subsidiary and promotes further distinction in nomenclature between the banking subsidiary and the bank holding company, German American Bancorp, Inc.

Business Developments

On July 1, 2019, the Company completed the acquisition of Citizens First Corporation (“Citizens First”) through the merger of Citizens First with and into the Company. Immediately following completion of the Citizens First holding company merger, Citizens First’s subsidiary bank, Citizen First Bank, Inc., was merged with and into the Company’s subsidiary bank, German American Bank. Citizens First, headquartered in Bowling Green, Kentucky operated eight retail banking offices through Citizens First Bank, Inc. in Barren, Hart, Simpson and Warren Counties in Kentucky. As of the closing of the transaction, Citizens First had total assets of approximately \$456.0 million, total loans of approximately \$364.6 million, and total deposits of approximately

\$370.8 million. The Company issued approximately 1.7 million shares of its common stock, and paid approximately \$15.5 million in cash, in exchange for all of the issued and outstanding shares of common stock of Citizens First.

On October 15, 2018, the Company completed the acquisition of First Security, Inc. ("First Security") through the merger of First Security with and into the Company. Immediately following completion of the First Security holding company merger, First Security's subsidiary bank, First Security Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. First Security, based in Owensboro, Kentucky, operated 11 retail banking offices, through First Security Bank, Inc., in Owensboro, Bowling Green, Franklin and Lexington, Kentucky and in Evansville and Newburgh, Indiana. As of the closing of the transaction, First Security had total assets of approximately \$553.2 million, total loans of approximately \$390.1 million, and total deposits of approximately \$424.4 million. The Company issued approximately 2.0 million shares of its common stock, and paid approximately \$31.2 million in cash, in exchange for all of the issued and outstanding shares of common stock of First Security and in cancellation of all outstanding options to acquire First Security common stock.

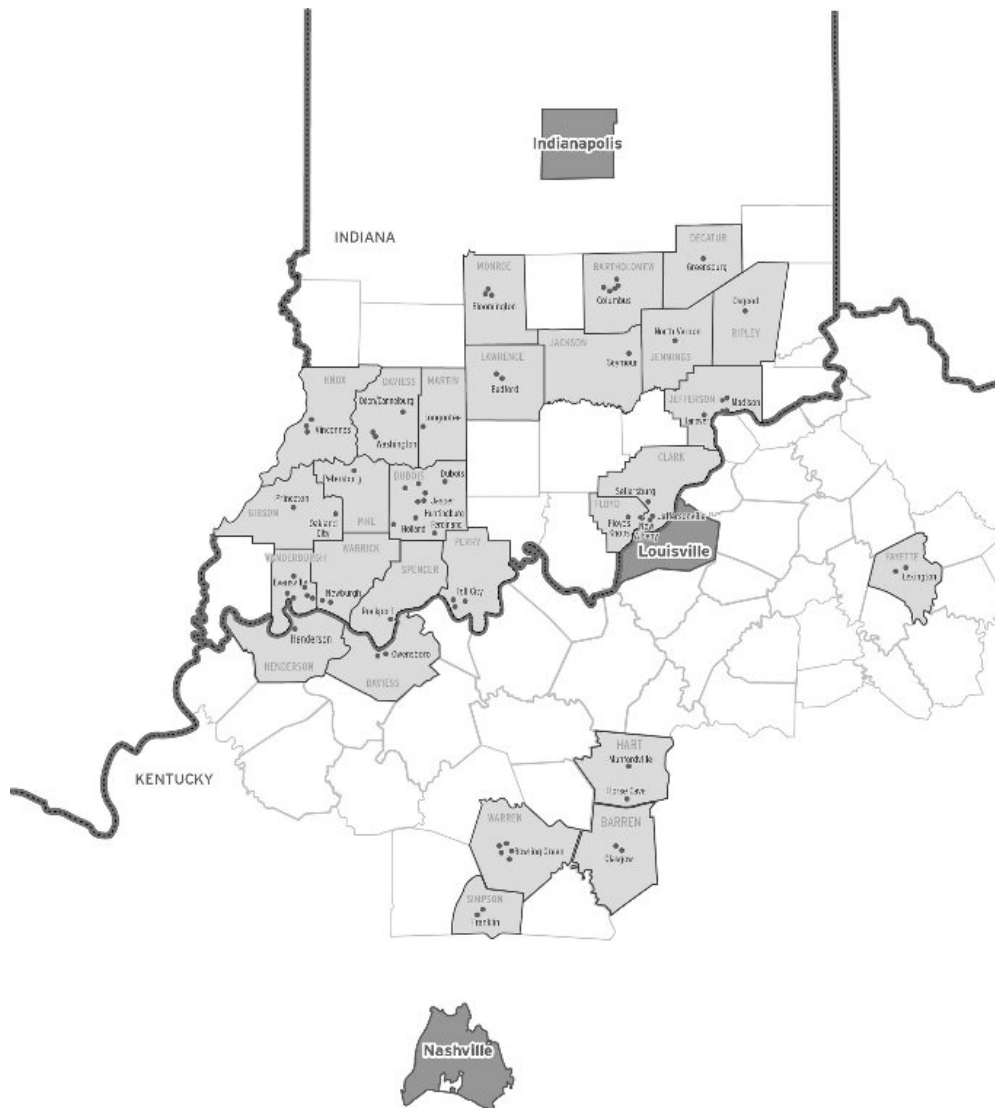
On May 18, 2018, German American Bank completed the acquisition of five branch locations of First Financial Bancorp (formerly branch locations of Mainsource Financial Group, Inc. prior to its merger with First Financial Bancorp on April 1, 2018) and certain related assets, and the assumption by German American Bank of certain related liabilities. Four of the branches are located in Columbus, Indiana, and one in Greensburg, Indiana. German American Bank acquired approximately \$175.7 million in deposits and approximately \$116.3 million in loans associated with the five bank branches. The premium paid on deposits by German American Bank was approximately \$7.4 million. The premium was subject to adjustment to reflect increases or decreases in the deposit balances during the six month period following the closing date. In January 2019, an adjustment of approximately \$0.1 million in additional premium was paid by German American Bank as a result of the change in deposits during the six month measurement period. German American Bank also had the ability, under certain circumstances, to put loans back to First Financial Bancorp's bank subsidiary during such six month period. During the fourth quarter of 2018, approximately \$1.3 million of loans were put back by German American Bank.

For further information regarding these merger and acquisition transactions, see Note 18 (Business Combinations) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 18 is incorporated into this Item 1 by reference.

The Company expects to continue to evaluate opportunities to expand its business through opening of new banking, insurance or trust, brokerage and financial planning offices, and through acquisitions of other banks, bank branches, portfolios of loans or other assets, and other financial-service-related businesses and assets in the future.

Office Locations

The map below illustrates the locations of the Company's 76 retail and commercial banking, insurance and investment offices as of February 20, 2020.



Competition

The industries in which the Company operates are highly competitive. The Bank competes for commercial and retail banking business within its core banking segment not only with financial institutions that have offices in the same counties but also with financial institutions that compete from other locations in Southern Indiana, Kentucky and elsewhere. Further, the Bank competes for loans and deposits not only with commercial banks but also with savings and loan associations, savings banks, credit unions, production credit associations, federal land banks, finance companies, credit card companies, personal loan companies, investment brokerage firms, insurance agencies, insurance companies, lease finance companies, money market funds, mortgage companies, and other non-depository financial intermediaries. There are numerous alternative providers (including national providers that advertise extensively and provide their services via e-mail, direct mail, telephone and the Internet) for the insurance products and services offered by German American Insurance, Inc., trust and financial planning services offered by the Bank and the brokerage products and financial planning services offered by German American Investment Services, Inc. Many of these competitors have substantially greater resources than the Company.

Employees

At February 20, 2020 the Company and its subsidiaries employed approximately 817 full-time equivalent employees. There are no collective bargaining agreements, and employee relations are considered to be good.

Regulation and Supervision

Overview

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (“FRB”) under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and is required to file with the FRB annual reports and such additional information as the FRB may require. The FRB may also make examinations or inspections of the Company. The Bank is under the supervision of and subject to examination by the Indiana Department of Financial Institutions (“DFI”), and the Federal Deposit Insurance Corporation (“FDIC”). Regulation and examination by banking regulatory agencies are primarily for the benefit of depositors rather than shareholders.

Under FRB policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act, a complex and wide-ranging statute that was enacted by Congress and signed into law during July 2010 (the “Dodd-Frank Act”), the Company is required to act as a source of financial and managerial strength to the Bank, and to commit resources to support the Bank, even in circumstances where the Company might not do so absent such a requirement. Under current federal law, the FRB may require a bank holding company to make capital injections into a troubled subsidiary bank. It may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to such a subsidiary bank or if it undertakes actions that the FRB believes might jeopardize the bank holding company’s ability to commit resources to such subsidiary bank.

With certain exceptions, the BHC Act prohibits a bank holding company from engaging in (or acquiring direct or indirect control of more than 5 percent of the voting shares of any company engaged in) nonbanking activities. One of the principal exceptions to this prohibition is for activities deemed by the FRB to be “closely related to banking.” Under current regulations, bank holding companies and their subsidiaries are permitted to engage in such banking-related business ventures as consumer finance; equipment leasing; credit life insurance; computer service bureau and software operations; mortgage banking; and securities brokerage.

In September 2019, we elected to become a “financial holding company.” As a financial holding company, we are permitted to engage in a broader range of activities that are “financial in nature” and in activities that are determined to be incidental or complementary to activities that are financial in nature. These activities include underwriting and dealing in and making a market in securities (subject to certain limits and compliance procedures required by the so-called Volcker Rule provisions added by the Dodd-Frank Act, described below under “Other Aspects of the Dodd-Frank Act”), insurance underwriting, and merchant banking. Banks may also engage through financial subsidiaries in certain of the activities permitted for financial holding companies, subject to certain conditions. Upon becoming a financial holding company, we began operating GABC Risk Management, Inc., a wholly-owned subsidiary, as a pooled captive insurance company subsidiary to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible. In order to continue as a financial holding company, we must continue to be well-capitalized, well-managed and maintain compliance with the Community Reinvestment Act.

The Bank and the subsidiaries of the Bank may generally engage in activities that are permissible activities for state chartered banks under Indiana banking law, without regard to the limitations that might apply to such activities under the BHC Act if the Company were to engage directly in such activities at the parent company level or through parent company subsidiaries that were not also bank subsidiaries.

Indiana law and the BHC Act restrict certain types of expansion by the Company and its bank subsidiary. The Company and its subsidiaries may be required to apply for prior approval from (or give prior notice and an opportunity for review to) the FRB, the DFI, the FDIC, and/or other bank regulatory or other regulatory agencies, as a condition to the acquisition or establishment of new offices, or the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

The earnings of commercial banks and their holding companies are affected not only by general economic conditions but also by the policies of various governmental regulatory authorities. In particular, the FRB regulates money and credit conditions and interest rates in order to influence general economic conditions, primarily through open-market operations in U.S. Government securities, varying the discount rate on bank borrowings, and setting reserve requirements against bank deposits. These policies have a significant influence on overall growth and distribution of bank loans, investments and deposits, and affect interest rates charged on loans and earned on investments or paid for time and savings deposits. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and this is expected to continue in the future. The general effect, if any, of such policies upon the future business and earnings of the Company cannot accurately be predicted.

Capital Requirements

We are subject to various regulatory capital requirements both at the parent company and at the Bank level administered by the FRB and by the FDIC and DFI, respectively. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for “Prompt Corrective Action” (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. We have consistently maintained regulatory capital ratios at or above the well-capitalized standards.

Generally, for purposes of satisfying these capital requirements, we must maintain capital sufficient to meet both risk-based asset ratio tests and a leverage ratio test on a consolidated basis. The risk-based ratios are determined by allocating assets and specified off-balance sheet commitments into various weighted categories, with higher weighting assigned to categories perceived as representing greater risk. A risk-based ratio represents the applicable measure of capital divided by total risk-weighted assets. The leverage ratio is a measure of our core capital divided by our total assets adjusted as specified in the guidelines.

Effective January 1, 2015, we became subject to certain regulatory capital reforms agreed to by the Basel Committee on Banking Supervision (known as “Basel III”) and to certain changes required by the Dodd-Frank Act. Generally, under these rules (which were subject to certain phase-in provisions), (a) minimum requirements were increased for both the quality and quantity of capital held by banking organizations, (b) stricter criteria are applied in determining the eligibility for inclusion in regulatory capital of capital instruments (other than common equity), and (c) the methodology for calculating risk-weighted assets was changed. As of January 1, 2019, the Basel III rules require, among other things:

- a minimum ratio of “Common Equity Tier 1 Capital” to risk-weighted assets of 4.5%, plus a 2.5% “conservation buffer” (bringing the Common Equity Tier 1 Capital to risk-weighted assets ratio to a total of at least 7.0%);
- a minimum ratio of Tier 1 Capital to risk-weighted assets of 6% plus the conservation buffer (which results in a minimum required total Tier 1 Capital to risk-weighted assets ratio of 8.5%);
- a minimum ratio of Total Capital (that is, Tier 1 Capital plus instruments includable in a tier called Tier 2 Capital) to risk-weighted assets of at least 8.0% plus the conservation buffer (which results in a minimum Total Capital to risk-weighted assets ratio of 10.5%); and
- a minimum leverage ratio of 4% (calculated as the ratio of Tier 1 Capital to adjusted average consolidated assets).

“Common Equity Tier 1” (“CET1”) Capital consists of common stock instruments that meet the eligibility criteria in the new rules, retained earnings, accumulated other comprehensive income (“AOCI”) and common equity Tier 1 minority interest.

Tier 1 Capital under the new rules consists of CET1 (subject to certain adjustments) and “additional Tier 1 capital” instruments meeting specified requirements, plus, in the case of smaller holding companies like ours, trust preferred securities in accordance with prior requirements for their inclusion in Tier I Capital.

Under the Basel III rules, we and our bank subsidiary elected to opt-out of the requirement to include AOCI in our CET1. As a result, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to Basel III.

Although banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will technically comply with minimum capital requirements under the new rules, such institutions will face limitations on the

payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to, among other things: (i) address the upcoming implementation of the “current expected credit losses” (“CECL”) accounting standard under GAAP; and (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL. Estimating our allowance for credit losses is dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our loans and securities portfolios, and other management judgements. We are currently finalizing the estimate of expected credit losses in order to record a one-time cumulative-effect adjustment to retained earnings as of the beginning of the first quarter of 2020, the first reporting period in which the new standard is effective. For the current estimated range of the increase to our allowance for credit losses and other information relating to the CECL model, please see “Accounting Guidance Issued But Not Yet Adopted” under Note 1 (Summary of Significant Accounting Policies) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

Prompt Corrective Action Classifications

The Federal Deposit Insurance Corporation Improvements Act (enacted in 1991) (FDICIA) requires federal banking regulatory authorities to take regulatory enforcement actions known as Prompt Corrective Action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. Since the Bank throughout 2019 was well-capitalized, the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had \$14.6 million of such brokered deposits at December 31, 2019. Further, a depository institution or its holding company that is not well-capitalized will generally not be successful in seeking regulatory approvals that may be necessary in connection with any plan or agreement to expand its business, such as through the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

Under the Prompt Corrective Action regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three “undercapitalized” categories (as such term is used in the FDICIA) may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees and dividends; or (vi) divest themselves of all or a part of their operations. Bank holding companies can be called upon to boost the capital of the financial institutions that they control, and to partially guarantee the institutions’ performance under their capital restoration plans. Critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

The minimum ratios defined by the Prompt Corrective Action regulations from time to time are merely guidelines and the bank regulators possess the discretionary authority to require higher capital ratios. Further, the risk-based capital standards of the FRB and the FDIC specify that evaluations by the banking agencies of a bank’s capital adequacy will include an assessment of the exposure to declines in the economic value of a bank’s capital due to changes in interest rates. These banking agencies issued a joint policy statement on interest rate risk describing prudent methods for monitoring such risk that rely principally on internal measures of exposure and active oversight of risk management activities by senior management.

To qualify as a “well-capitalized” institution, a depository institution under the Prompt Corrective Action requirements must have a leverage ratio of no less than 5%, a Tier I Capital ratio of no less than 8%, a CET1 ratio of no less than 6.5%, and a total risk-based capital ratio of no less than 10%, and the bank must not have been under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. As of December 31, 2019, the Bank exceeded the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy to be classified as “well-capitalized”, and is unaware of any material violation or alleged violation of these regulations, policies or directives. For a tabular presentation of our regulatory capital ratios and those of the Bank as of December 31, 2019, see Note 8 (Shareholders’ Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 8 is incorporated herein by reference.

On October 29, 2019, the FRB, the FDIC and the Office of the Comptroller of the Currency (the “OCC”) adopted a final rule to simplify the regulatory capital requirements for eligible community banks and holding companies that opt-in to the community bank leverage ratio framework (“CBLR framework”), as required by Section 201 of the Economic Growth, Relief and Consumer Protection Act of 2018 (the “Economic Growth Act”). Under the final rule, which became effective as of January 1, 2020, community banks and holding companies (which would include the Bank and the Company) that satisfy certain qualifying criteria,

including having less than \$10 billion in average total consolidated assets and a leverage ratio (referred to as the “community bank leverage ratio”) of greater than 9%, would be eligible to opt-in to the CBLR framework. The community bank leverage ratio is the ratio of a banking organization’s Tier 1 Capital to its average total consolidated assets, both as reported on the banking organization’s applicable regulatory filings. If this election is made, the Company and the Bank would satisfy their regulatory capital standards by calculating and reporting the community bank leverage ratio instead of the risk-weighted capital ratios and minimum leverage ratio currently required and would be deemed “well-capitalized” under the FRB’s and FDIC’s Prompt Corrective Action rules so long as they continue to satisfy the qualifying criteria of the CBLR framework. The Company has not yet decided whether it will take advantage of the new CBLR framework or will continue with the existing layered ratio structure. Under either framework, the Company and the Bank would be considered well-capitalized under the applicable guidelines.

Future rulemaking and regulatory changes on capital requirements may impact the Company as it continues to grow and evaluate potential mergers and acquisitions.

Restrictions on Bank Dividends or Loans to, or other Transactions with, the Parent Company, and on Parent Company Dividends

German American Bancorp, Inc., which is the publicly-held parent of the Bank (German American Bank), is a corporation that is separate and distinct from the Bank and its other subsidiaries. Most of the parent company’s revenues historically have been comprised of dividends, fees, and interest paid to it by the Bank, and this is expected to continue in the future. There are, however, statutory limits under Indiana law on the amount of dividends that the Bank can pay to its parent company without regulatory approval. The Bank may not, without the approval of the DFI, pay a dividend in an amount greater than its undivided profits. In addition, the prior approval of the DFI is required for the payment of a dividend by an Indiana state-chartered bank if the total of all dividends declared in a calendar year would exceed the total of its net income for the year combined with its retained net income for the two preceding years, unless such a payment qualifies under certain exemptive criteria that exempt certain dividend payments by certain qualified banks from the prior approval requirement. At December 31, 2019, the Bank was eligible for payment of dividends under the exemptive criteria established by DFI policy for this purpose, and could have declared and paid to the holding company \$80 million of its undivided profits without approval by the DFI in accordance with such criteria. See Note 8 (Shareholders’ Equity) of the Notes to Consolidated Financial Statements included in Item 8 of this Report for further discussion.

Insured depository institutions such as the Bank are also prohibited under the FDICIA from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized.

In addition, the FRB and other bank regulatory agencies have issued policy statements or advisories that provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings.

In addition to these statutory restrictions, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Accordingly, if the Bank were to experience financial difficulties, it is possible that the applicable regulatory authority could determine that the Bank would be engaged in an unsafe or unsound practice if the Bank were to pay dividends and could prohibit the Bank from doing so, even if availability existed for dividends under the statutory formula.

Further, the Bank is subject to affiliate transaction restrictions under federal laws, which limit certain transactions generally involving the transfer of funds by a subsidiary bank or its subsidiaries to its parent corporation or any nonbank subsidiary of its parent corporation, whether in the form of loans, extensions of credit, investments, or asset purchases, or otherwise undertaking certain obligations on behalf of such affiliates. Furthermore, covered transactions that are loans and extensions of credit must be secured within specified amounts. In addition, all covered transactions and other affiliate transactions must be conducted on terms and under circumstances that are substantially the same as such transactions with unaffiliated entities.

Other Aspects of the Dodd-Frank Act

The Dodd-Frank Act (in addition to the regulatory changes discussed elsewhere in this “Regulation and Supervision” discussion and below under “Federal Deposit Insurance Premiums and Assessments”) made a variety of changes that affect the business and affairs of the Company and the Bank in other ways. For instance, the Dodd-Frank Act (or agency regulations adopted and implemented (or to be adopted and implemented) under the Dodd-Frank Act) altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions; restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates; eliminated the former statutory prohibition against the payment of interest on business checking accounts; limited interchange fees on debit card transactions by certain large processors; and established the Consumer Financial Protection Bureau (“CFPB”).

The CFPB was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit

Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The CFPB issued a rule, effective as of January 14, 2014, designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that satisfy this "qualified mortgage" safe-harbor will be presumed to have complied with the new ability-to-repay standard. Under the CFPB's rule, a "qualified mortgage" loan must not contain certain specified features, and the borrower's total monthly debt-to-income ratio may not exceed a specified percentage. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

On December 10, 2013, five financial regulatory agencies, including the FRB and FDIC, adopted final rules implementing the so-called Volcker Rule added to banking law by Section 619 of the Dodd-Frank Act. These final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). Community banks like the Bank have been afforded some relief under these final rules from onerous compliance obligations created by the rules; if banks are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The Economic Growth Act also served to raise the threshold of banks subject to the Volcker Rule to only those with more than \$10 billion in assets. Although we do not yet meet that threshold, even if we were subject to it, we do not expect that the Volcker Rule would have any material financial implications on us or our investments or activities.

Certain Other Laws and Regulations

The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, a rating of "satisfactory" was received by the Bank.

In accordance with the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act"), federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

A major focus of governmental policy on financial institutions is combating money laundering and terrorist financing. The Bank Secrecy Act (the "BSA") requires financial institutions to develop policies, procedures, and practices to prevent and deter money laundering, and mandates that every bank have a written, board-approved program that is reasonably designed to assure and monitor compliance with the BSA. In addition, banks are required to adopt a customer identification program as part of its BSA compliance program, and are required to file Suspicious Activity Reports when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA. The Bank is also required to (1) identify and verify, subject to certain exceptions, the identity of the beneficial owners of all legal entity customers at the time a new account is opened, and (2) include, in its anti-money laundering program, risk-based procedures for conducting ongoing customer due diligence, which must include procedures that: (a) assist in understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (b) require ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties

and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the “OFAC” rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (“OFAC”). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

The Bank is subject to a wide variety of other laws with respect to the operation of its businesses, and regulations adopted under those laws, including but not limited to the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Electronic Funds Transfer Act, Fair Housing Act, Home Mortgage Disclosure Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act, Expedited Funds Availability (Regulation CC), Reserve Requirements (Regulation D), Insider Transactions (Regulation O), Privacy of Consumer Information (Regulation P), Margin Stock Loans (Regulation U), Right To Financial Privacy Act, Flood Disaster Protection Act, Homeowners Protection Act, Servicemembers Civil Relief Act, Real Estate Settlement Procedures Act, TILA-RESPA Integrated Disclosure Rule, Telephone Consumer Protection Act, CAN-SPAM Act, Children’s Online Privacy Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) and the John Warner National Defense Authorization Act. The laws and regulations to which we are subject are constantly under review by Congress, the federal regulatory agencies, and the state authorities.

Federal Deposit Insurance Premiums and Assessments

The Bank’s deposit accounts are currently insured by the Deposit Insurance Fund (the “DIF”) of the FDIC. The insurance benefit generally covers up to a maximum of \$250,000 per separately insured depositor. As an FDIC-insured bank, our bank subsidiary is subject to deposit insurance premiums and assessments to maintain the DIF. The Bank’s deposit insurance premium assessment rate depends on the asset and supervisory categories to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments.

Under the current system, deposit insurance assessments are based on average total assets minus average tangible equity. The FDIC assigns a banking institution to one of two categories based on asset size. As an institution with under \$10 billion in assets, the Bank falls into the “Established Small Institution” category. This category has three sub-categories based on supervisory ratings designed to measure risk (the FDIC’s “CAMELS Composite” ratings). The assessment rate, which ranges from 1.5 to 30.0 basis points (such basis points representing a per annum rate) for Established Small Institutions, is determined based upon each applicable institution’s most recent supervisory and capital evaluations.

In addition, each FDIC insured institution has been required to pay to the FDIC an assessment on the institution’s total assets less tangible capital in order to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. With the Financing Corporation having made its final bond payment in September 2019, the Bank made its last assessment payment, which was equal to a per annum rate of 0.12 basis points, in March 2019.

Internet Address: Internet Availability of SEC Reports

The Company’s Internet address is www.germanamerican.com.

The Company makes available, free of charge through the Investor Relations - Financial Information section of its Internet website, the Company’s annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are filed with or furnished to the SEC.

Forward-Looking Statements and Associated Risks

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future. These types of statements are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about the Company’s net interest income or net interest margin; adequacy of the Company’s capital under regulatory requirements and of its allowance for loan losses, and the quality of the Company’s loans, investment securities and other assets; simulations of changes in interest rates; litigation results; dividend policy; acquisitions or mergers; estimated cost savings, plans and objectives for future operations; and expectations about the Company’s financial and business performance and other business matters as well as economic and market conditions and trends. All statements other than statements of historical fact included in this Report, including statements regarding our financial position, business strategy and the plans and objectives of our management for future operations, are forward-looking statements. When used in this Report, words such as “anticipate”, “believe”, “estimate”, “expect”, “plan”, “intend”, “should”, “would”, “could”, “can”, “may”, “will”, “might” and similar expressions, as they relate to us or our management, identify forward-looking statements.

Such forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management, and are subject to risks, uncertainties, and other factors.

Actual results may differ materially and adversely from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussions in Item 1A, “Risk Factors,” and in Item 7 of this Form 10-K, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” list some of the factors that could cause the Company’s actual results to vary materially from those expressed or implied by any forward-looking statements. Other risks, uncertainties, and factors that could cause the Company’s actual results to vary materially from those expressed or implied by any forward-looking statement include but not limited to:

- the unknown future direction of interest rates and the timing and magnitude of any changes in interest rates;
- changes in competitive conditions;
- the introduction, withdrawal, success and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies;
- changes in customer borrowing, repayment, investment and deposit practices;
- changes in fiscal, monetary and tax policies;
- changes in financial and capital markets;
- potential deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration;
- capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities;
- risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base or employee base of the acquired institution or branches, and difficulties in integration of the acquired operations;
- factors driving impairment charges on investments;
- the impact, extent and timing of technological changes;
- potential cyber-attacks, information security breaches and other criminal activities;
- litigation liabilities, including related costs, expenses, settlements and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future;
- actions of the FRB;
- the possible effects of the replacement of the London Interbank Offering Rate (LIBOR);
- changes in accounting principles and interpretations, including the impact of the new current expected credit loss (CECL) standard;
- potential increases of federal deposit insurance premium expense, and possible future special assessments of FDIC premiums, either industry wide or specific to the Company’s banking subsidiary;
- actions of the regulatory authorities under the Dodd-Frank Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms;
- impacts resulting from possible amendments or revisions to the Dodd-Frank Act and the regulations promulgated thereunder, or to CFPB rules and regulations; and
- the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements. It is intended that these forward-looking statements speak only as of the date they are made. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors.

The following describes some of the principal risks and uncertainties to which our industry in general, and our securities, assets and businesses specifically, are subject; other risks are briefly identified in our cautionary statement that is included under the heading "Forward-Looking Statements and Associated Risks" in Part I, Item 1, "Business." Although we seek ways to manage these risks and uncertainties and to develop programs to control those that we can, we ultimately cannot predict the future. Future results may differ materially from past results, and from our expectations and plans.

Risks Related to the Financial Services Industry

We operate in a highly regulated environment and changes in laws and regulations to which we are subject may adversely affect our results of operations.

The banking industry in which we operate is subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation, none of which is in our control. Significant new laws or changes in, or repeals of, existing laws (including changes in federal or state laws affecting corporate taxpayers generally or financial institutions specifically) could have a material adverse effect on our business, financial condition, results of operations or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions, and any unfavorable change in these conditions could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The Dodd-Frank Act and regulations adopted under that law could materially and adversely affect us by increasing compliance costs and heightening our risk of noncompliance with applicable regulations.

The Dodd-Frank Act (discussed in "Business - Regulation and Supervision" of Item 1 above) has resulted in sweeping changes in the regulation of financial institutions. The Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. Many of these provisions remain subject to regulatory rule-making and implementation, the effects of which are not yet known. Accordingly, we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally. However, the Dodd-Frank Act and the regulations promulgated thereunder have imposed additional administrative and regulatory burdens that obligate us to incur additional expenses (which adversely affect our margins and profitability) and increase the risk that we might not comply in all respects with the new requirements. Further, the CFPB's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact our growth or profitability.

The banking industry may be subject to new legislation, regulation, and government policy including possible amendments or revisions to the Dodd-Frank Act and the regulations promulgated thereunder, and to CFPB rules and regulations. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that cannot accurately be predicted. In addition, our financial condition and results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

We are required to maintain certain minimum amounts and types of capital and may be subject to more stringent capital requirements in the future. A failure to meet applicable capital requirements could have an adverse effect on us.

We are subject to regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, banking regulators change these capital adequacy guidelines. For example, as a result of the recently implemented "Basel III" capital reforms required by the Dodd-Frank Act, we are now required to satisfy additional, more stringent, capital adequacy standards than we had in the past. See "Business - Regulation and Supervision, Capital Requirements" of Item 1 above for additional information. We currently satisfy the well-capitalized and capital conservation standards set forth in Basel III, and based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements and capital conservation buffer standards. However, a failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends. Higher capital levels could also lower our return on equity.

As discussed under "Business - Regulation and Supervision Prompt, Corrective Action Classifications" of Item 1 above, effective as of January 1, 2020, the Company and the Bank became eligible to opt-in to the CBLR framework, as provided for by the

Economic Growth Act, because they satisfy certain qualifying criteria, including having less than \$10 billion in average total consolidated assets and a leverage ratio (referred to as the “community bank leverage ratio”) of greater than 9%. The community bank leverage ratio is the ratio of a banking organization’s “CBLR tier 1 capital” to its average total consolidated assets, both as reported on the banking organization’s applicable regulatory filings. If this election is made, the Company and the Bank would satisfy their regulatory capital standards by calculating and reporting the community bank leverage ratio instead of the risk-weighted capital ratios and minimum leverage ratio currently required and would be deemed “well-capitalized” under the FRB’s and FDIC’s Prompt Corrective Action rules so long as they continue to satisfy the qualifying criteria of the CBLR framework. The Company has not yet decided whether it will take advantage of the new CBLR framework or will continue with the existing layered ratio structure. Under either framework, the Company and the Bank would be considered well-capitalized under applicable guidelines.

Our FDIC insurance premiums may increase, and special assessments could be made, which might negatively impact our results of operations.

High levels of insured institution failures, as a result of the recent recession, significantly increased losses to the Deposit Insurance Fund of the FDIC. Further, the Dodd-Frank Act mandated the FDIC to increase the level of its reserves for future losses in its Deposit Insurance Fund. Since the Deposit Insurance Fund is funded by premiums and assessments paid by insured banks, our FDIC insurance premium could increase in future years depending upon the FDIC’s actual loss experience, changes in our Bank’s financial condition or capital strength, and future conditions in the banking industry.

Risks Related to Our Business and Financial Strategies

Economic weakness in our geographic markets could negatively affect us.

We conduct business from offices that are located in 20 contiguous southern Indiana counties and four counties in Kentucky, from which substantially all of our customer base is drawn. Because of the geographic concentration of our operations and customer base, our results depend largely upon economic conditions in this area. Any material deterioration in the economic conditions in these markets could have direct or indirect material adverse impacts on us, or on our customers or on the financial institutions with whom we deal as counterparties to financial transactions. Such deterioration could negatively impact customers’ ability to obtain new loans or to repay existing loans, diminish the values of any collateral securing such loans and could cause increases in the number of the Company’s customers experiencing financial distress and in the levels of the Company’s delinquencies, non-performing loans and other problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. The underwriting and credit monitoring policies and procedures that we have adopted cannot eliminate the risk that we might incur losses on account of factors relating to the economy like those identified above, and those losses could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If our actual loan losses exceed our estimates, our earnings and financial condition will be impacted.

A significant source of risk for any bank or other enterprise that lends money arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail (because of financial difficulties or other reasons) to perform in accordance with the terms of their loan agreements. In our case, we originate many loans that are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans, due to adverse changes in collateral values caused by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate and other external events.

Our allowance for loan losses may not be adequate to cover actual losses.

We maintain an allowance for loan losses to cover probable, incurred credit losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. Although our management has established an allowance for loan losses that it believes is adequate to absorb probable and reasonably estimable losses in our loan portfolio, this allowance may not be adequate. We could sustain credit losses that are significantly higher than the amount of our allowance for loan losses.

The impact of adopting the new accounting standard for recording the allowance for credit losses is uncertain.

In June 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to replace the incurred

loss model with an expected loss model, which is referred to as the current expected credit loss (“CECL”) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard became effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period.

ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. As of the beginning of the first reporting period in which the new standard is effective, the Company expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses, since this ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. The Company currently estimates an increase to the allowance for credit losses of approximately \$12 million to \$20 million upon adoption, which is primarily related to our acquired loan portfolio. This estimate and the ongoing impact of adopting this ASU are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our loans and securities portfolios, and other management judgements. The transition adjustment to record the allowance for credit losses, which remains subject to further review and analysis by our management team, may fall outside of our estimated increase based on material changes in these factors.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to, among other things: (i) address the upcoming implementation of the CECL accounting standard under GAAP; and (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL. The Company anticipates adopting the capital transition relief over the permissible three-year period.

We could be adversely affected by changes in interest rates.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, and policies of various governmental and regulatory agencies and, in particular, the monetary policies of the FRB. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. We maintain an investment portfolio consisting of various high quality liquid fixed-income securities. The nature of fixed-income securities is such that increases in prevailing market interest rates negatively impact the value of these securities, while decreases in prevailing market interest rates positively impact the value of these securities. Any substantial, prolonged change in market interest rates could have a material adverse effect on our financial condition, results of operations, and cash flows.

Increased regulatory oversight, uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the results of our operations.

On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates the London Interbank Offered Rate (“LIBOR”), announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Efforts in the United States to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. Uncertainty as to the nature of alternative reference rates and as to potential changes in other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans, and to a lesser extent securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our subordinated debentures and trust preferred securities. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently and we may incur significant costs to transition both our borrowing arrangements and the loan agreements with our customers from LIBOR, which may have an adverse effect on our results of operations. The impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known.

The banking and financial services business in our markets is highly competitive.

We compete with much larger regional, national, and international competitors, including competitors that have no (or only a limited number of) offices physically located within our markets, many of which compete with us via Internet and other electronic product and service offerings. In addition, banking and other financial services competitors (including newly organized companies) that are not currently represented by physical locations within our geographic markets could establish office facilities within our markets, including through their acquisition of existing competitors. In December 2016, the OCC announced its intent to make

special purpose national bank charters available to financial technology companies. While the agency issued a draft supplement to its licensing manual in March 2017, providing more details on how companies applying for such charters would be evaluated, the OCC has not given any definitive indication as to whether or not it intends to move forward in making such special purpose charters available to financial technology companies. In any event, developments increasing the nature or level of our competition, or decreasing the effectiveness by which we compete, could have a material adverse effect on our business, financial condition, results of operations or liquidity. See also “Business - Competition” and “Business - Regulation and Supervision” under Item 1 of Part I of this Report.

The manner in which we report our financial condition and results of operations may be affected by accounting changes.

Our financial condition and results of operations that are presented in our consolidated financial statements, accompanying notes to the consolidated financial statements, and selected financial data appearing in this Report, are, to a large degree, dependent upon our accounting policies. The selection of and application of these policies involve estimates, judgments and uncertainties that are subject to change, and the effect of any change in estimates or judgments that might be caused by future developments or resolution of uncertainties could be materially adverse to our reported financial condition and results of operations. In addition, authorities that prescribe accounting principles and standards for public companies from time to time change those principles or standards or adopt formal or informal interpretations of existing principles or standards. Such changes or interpretations (to the extent applicable to us) could result in changes that would be materially adverse to our reported financial condition and results of operations.

We may be adversely affected by changes in tax laws.

The Tax Cuts and Jobs Act (the “Tax Act”), which was enacted in December 2017, reduced the federal tax rate for corporations from 35% to 21%. While our earnings have been positively impacted by the rate reduction and the resulting increase in economic activity, the Tax Act also enacted limitations on certain deductions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for certain home equity loans, (3) a limitation on the deductibility of business interest expense, and (4) a limitation on the deductibility of property taxes and state and local income taxes. Given the current economic and political environment and ongoing budgetary pressures, the enactment of further new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, credits and exemptions may have a material adverse effect on our business, financial condition and results of operations.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of securities or loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Although we have historically been able to replace maturing deposits and borrowings as necessary, we might not be able to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of our lenders or market conditions were to change.

The value of securities in our investment securities portfolio may be negatively affected by disruptions in securities markets.

Prices and volumes of transactions in the nation’s securities markets can be affected suddenly by economic crises, or by other national or international crises, such as national disasters, acts of war or terrorism, changes in commodities markets, or instability in foreign governments. Disruptions in securities markets may detrimentally affect the value of securities that we hold in our investment portfolio, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that declines in market value associated with these disruptions will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our

counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due us.

We are dependent on key personnel and the loss of one or more of those key personnel could harm our business.

Competition for qualified employees and personnel in the financial services industry (including banking personnel, trust and investments personnel, and insurance personnel) is intense and there are a limited number of qualified persons with knowledge of and experience in our local Southern Indiana markets. Our success depends to a significant degree upon our ability to attract and retain qualified loan origination executives, sales executives for our trust and investment products and services, and sales executives for our insurance products and services. We also depend upon the continued contributions of our management personnel, and in particular upon the abilities of our senior executive management, and the loss of the services of one or more of them could harm our business.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our methods of reducing risk exposure may not be effective.

The Company maintains a comprehensive risk management program designed to identify, quantify, manage, mitigate, monitor, aggregate, and report risks. However, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market, liquidity, operational, compliance, financial reporting and strategic risks could be less effective than anticipated. As a result, the Company may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk, which could have a material adverse effect on our business, results of operations, cash flows and financial condition. For more information regarding risk management, please see “RISK MANAGEMENT” under Item 7 of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties (including liabilities for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination), or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property.

Risks Related to Our Operations

We face significant operational risks due to the high volume and the high dollar value nature of transactions we process.

We operate in many different businesses in diverse markets and rely on the ability of our employees and systems to process transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions, errors relating to transaction processing and technology, breaches of our internal control systems or failures of those of our suppliers or counterparties, compliance failures, cyber-attacks or unforeseen problems encountered while implementing new computer systems or upgrades to existing systems, business continuation and disaster recovery issues, and other external events. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. The occurrence of any of these events could cause us to suffer financial loss, face regulatory action and suffer damage to our reputation.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a cyber-attack, other breach of our computer systems or otherwise, could harm our business.

In the normal course of our business, we collect, process and retain sensitive and confidential client and customer information on our behalf and on behalf of other third parties. Despite the security measures we have in place, our facilities and systems may be vulnerable to cyber-attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and / or human errors, or other similar events.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks, designed to disrupt key business services such as customer-facing web sites. We may not be able to anticipate or implement effective preventive measures against all security breaches of these types. Although we employ detection and response mechanisms designed to contain and mitigate security incidents, early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. We cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

Any cyber-attack or other security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information could severely damage our reputation, erode confidence in the security of our systems, products and services, expose us to the risk of litigation and liability, disrupt our operations and have a material adverse effect on our business.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of our information systems, we cannot completely ensure that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We are dependent upon third parties for certain information system, data management and processing services and to provide key components of our business infrastructure.

We outsource certain information system and data management and processing functions to third party providers. These third party service providers are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches, and unauthorized disclosures of sensitive or confidential client or customer information. If third party service providers encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our results of operations or our business.

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing.

While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Replacing these third party vendors could also entail significant delay and expense.

Risks Relating to Expansion of Our Businesses by Acquisition

Any acquisitions of banks, bank branches, or loans or other financial service assets pose risks to us.

We may acquire other banks, bank branches and other financial-service-related businesses and assets in the future. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the acquired assets, operations or company;
- exposure to potential asset quality issues of the acquired assets, operations or company;
- environmental liability with acquired real estate collateral or other real estate;

- difficulty and expense of integrating the operations, systems and personnel of the acquired assets, operations or company;
- potential disruption to our ongoing business, including diversion of our management's time and attention;
- the possible loss of key employees and customers of the acquired operations or company;
- difficulty in estimating the value of the acquired assets, operations or company; and
- potential changes in banking or tax laws or regulations that may affect the acquired assets, operations or company.

We may not be successful in overcoming these risks or any other problems encountered in connection with mergers or acquisitions.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value per common share or net income per common share (or both) may occur in connection with any future transaction.

We may incur substantial costs to expand by acquisition, and such acquisitions may not result in the levels of profits we seek.

Integration efforts for any future acquisitions may not be successful and following any future acquisition, after giving it effect, we may not achieve financial results comparable to or better than our historical experience.

We may participate in FDIC-assisted acquisitions, which could present additional risks to our financial condition.

We may make opportunistic whole or partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC. In addition to the risks frequently associated with acquisitions, an acquisition of a troubled financial institution may involve a greater risk that the acquired assets underperform compared to our expectations. Because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution, we may face additional risks including, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share and share ownership.

Risks Related to Our Common Stock

Our common stock price may fluctuate significantly, and this may make it difficult for you to resell our common stock at times or at prices acceptable to you.

Our common stock price constantly changes in response to a variety of factors (some of which are beyond our control), and we expect that our stock price will continue to fluctuate in the future. Factors impacting the price of our common stock include, among others:

- actual or anticipated variations in our quarterly results of operations;
- recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or continue to cover, us;
- operating and stock price performance of other companies that investors believe are comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us, or our reputation, competitors or other financial institutions;
- actual or anticipated sales of our equity or equity-related securities;
- our past and future dividend practice;
- departure of our management team or other key personnel;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- existing or increased regulatory and compliance requirements, changes or proposed changes in laws or regulations, or differing interpretations thereof affecting our business, or enforcement of these laws and regulations; and
- litigation and governmental investigations.

General market fluctuations, industry factors and general economic and political conditions and events (such as economic slowdowns or recessions, interest rate changes or credit loss trends) could also cause our stock price to decrease regardless of operating results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's executive offices are located in the main office building of the Bank at 711 Main Street, Jasper, Indiana. The main office building, which is owned by the Bank and also serves as the main office of the Company's other subsidiaries, contains approximately 23,600 square feet of office space. The Bank and the Company's other subsidiaries also conduct their operations from 59 other locations in Southern Indiana, 18 in Kentucky, and one in Tennessee of which 56 are owned by the Company and 23 are leased from third parties.

Item 3. Legal Proceedings.

There are no material pending legal proceedings, other than routine litigation incidental to the business of the Company's subsidiaries, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Common Stock

German American Bancorp, Inc.’s stock is traded on the Nasdaq Global Select Market under the symbol GABC.

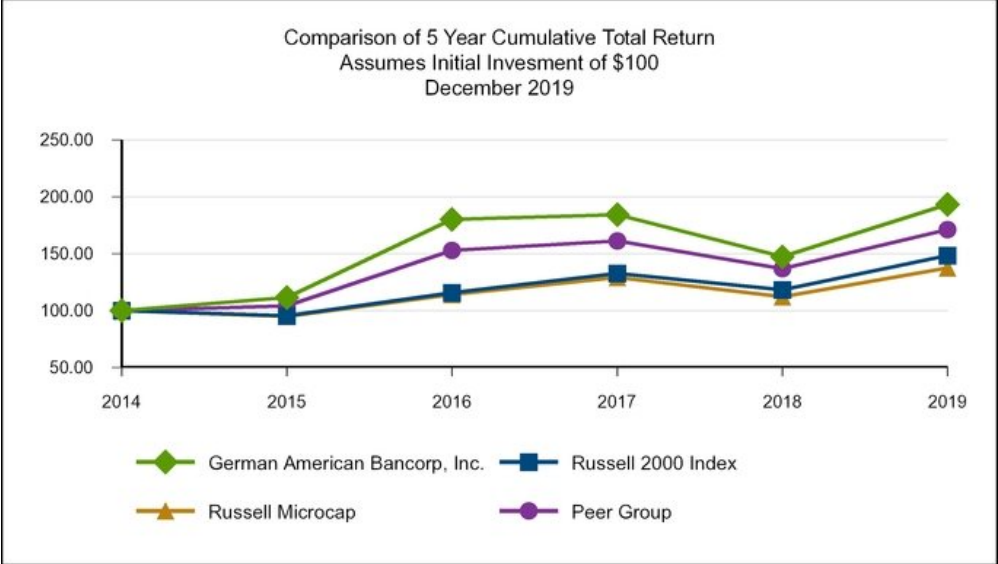
The Common Stock was held of record by approximately 3,865 shareholders at February 20, 2020.

Transfer Agent: Computershare
Priority Processing
462 South 4th Street
Louisville, KY 40202-3467
Contact: Shareholder Relations
(800) 884-4225

Shareholder Information and Corporate Office: Terri A. Eckerle
German American Bancorp, Inc.
P.O. Box 810
Jasper, Indiana 47547-0810
(812) 482-1314
(800) 482-1314

Stock Performance Graph

The following graph compares the Company’s five-year cumulative total returns with those of the Russell 2000 Stock Index, Russell Microcap Stock Index, and the Indiana Bank Peer Group. The Indiana Bank Peer Group (which is a custom peer group identified by Company management) includes all Indiana-based commercial bank holding companies (excluding companies owning thrift institutions that are not regulated as bank holding companies) that have been in existence as commercial bank holding companies throughout the five-year period ended December 31, 2019, the stocks of which have been traded on an established securities market (NYSE, NYSE American or Nasdaq) throughout that five-year period. The companies comprising the Indiana Bank Peer Group for purposes of the December 2019 comparison were: 1st Source Corp., First Financial Corp., First Merchants Corp., Lakeland Financial Corp., Old National Bancorp, Horizon Bancorp, MutualFirst Financial, Inc., First Internet Bancorp, and First Savings Financial Corp. First Savings Financial Corp was added to the Indiana Bank Peer Group for the first time in this Annual Report on Form 10-K as a result of converting to a bank holding company effective December 19, 2014, and otherwise meeting the above criteria. The returns of each company in the Indiana Bank Peer Group have been weighted to reflect the company’s market capitalization. The Russell 2000 Stock Index, which is designed to measure the performance of the small-cap segment of the U.S. equity universe, is a subset of the Russell 3000 Index (which measures the performance of the largest 3,000 U.S. companies) that includes approximately 2,000 of the smallest securities in that index based on a combination of their market cap and current index membership, and is annually reconstituted at the end of each June. The Russell Microcap Stock Index is an index representing the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities, which is also annually reconstituted at the end of each June. The Company’s stock is currently included in the Russell 2000 Index and Russell Microcap Index.



Stock Repurchase Program Information

The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended December 31, 2019.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
October 2019	—	—	—	409,184
November 2019	—	—	—	409,184
December 2019	—	—	—	409,184

⁽¹⁾ On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 911,631 of its outstanding common shares, of which the Company had purchased 502,447 common shares through December 31, 2019 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the quarter ended December 31, 2019.

On January 27, 2020, the Company's Board of Directors terminated the 2001 repurchase program and approved a new plan to repurchase up to one million shares of the Company's outstanding common stock. The Company is not obligated to purchase any shares under the 2020 repurchase plan. No expiration date has been established for the 2020 plan and the Board may discontinue it at any time.

Equity Compensation Plan Information

The Company maintains three equity incentive plans under which it has authorized the issuance of its Common Shares to employees and non-employee directors as compensation: its 2009 Long-Term Equity Incentive Plan (under which no new grants may be made), its 2019 Long-Term Equity Incentive Plan (the "2019 LTI Plan") and its 2019 Employee Stock Purchase Plan (the "2019 ESPP"). Each of these plans was approved by the requisite vote of the Company's common shareholders in the year of adoption by the Board of Directors. The Company is not a party to any individual compensation arrangement involving the authorization for issuance of its equity securities to any single person, other than option agreements and restricted stock award agreements that have been granted under the terms of one of the three plans identified above. The following table sets forth information regarding these plans as of December 31, 2019:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants or Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	— (a)	\$ — (a)	1,734,824 (b)
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	1,734,824

^(a) On December 31, 2019, participants under the 2019 ESPP exercised options to purchase 5,815 Common Shares at the purchase price of \$33.84 per share. The Company settled the option exercises in January 2020 with shares purchased on the open market.

^(b) Represents 750,000 shares at December 31, 2019 that the Company may in the future issue to employees under the 2019 ESPP (although the Company typically purchases the shares needed for sale to participating employees on the open market rather than issuing new issue shares to such employees) and 984,824 shares that were available for grant or issuance at December 31, 2019 under the 2019 LTI Plan. As stated in note (a) above, the Company settled certain option exercises in January 2020 with shares purchased on the open market. The issuance of such reacquired shares will result in a 5,815 share reduction in the amount remaining available for future issuance.

For additional information regarding the Company's equity incentive plans and employee stock purchase plan, see Note 8 (Shareholders' Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

Item 6. Selected Financial Data.

The following selected data should be read in conjunction with the consolidated financial statements and related notes that are included in Item 8 of this Report, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Report (dollars in thousands, except per share data). Year-to-year financial information comparability is affected by the acquisition accounting treatment for mergers and acquisitions, including but not limited to the Company’s acquisition of River Valley Bancorp effective March 1, 2016, the acquisition of five branches from First Financial Bancorp effective May 18, 2018, the acquisition of First Security, Inc. effective October 15, 2018, and the acquisition of Citizens First Corporation effective July 1, 2019.

	2019	2018	2017	2016	2015
Summary of Operations:					
Interest Income	\$ 176,474	\$ 133,749	\$ 111,030	\$ 103,365	\$ 81,620
Interest Expense	31,249	19,139	11,121	8,461	6,068
Net Interest Income	145,225	114,610	99,909	94,904	75,552
Provision for Loan Losses	5,325	2,070	1,750	1,200	—
Net Interest Income after Provision For Loan Losses	139,900	112,540	98,159	93,704	75,552
Non-interest Income	45,501	37,070	31,854	32,013	27,444
Non-interest Expense	114,162	93,553	77,803	76,587	61,326
Income before Income Taxes	71,239	56,057	52,210	49,130	41,670
Income Tax Expense	12,017	9,528	11,534	13,946	11,606
Net Income	\$ 59,222	\$ 46,529	\$ 40,676	\$ 35,184	\$ 30,064
Year-end Balances:					
Total Assets	\$ 4,397,672	\$ 3,929,090	\$ 3,144,360	\$ 2,955,994	\$ 2,373,701
Total Loans, Net of Unearned Income	3,077,091	2,728,059	2,141,638	1,989,955	1,564,347
Total Deposits	3,430,021	3,072,632	2,484,052	2,349,551	1,826,376
Total Long-term Debt	181,950	126,635	141,717	120,560	95,606
Total Shareholders’ Equity	573,820	458,640	364,571	330,267	252,348
Average Balances:					
Total Assets	\$ 4,128,535	\$ 3,380,409	\$ 3,002,695	\$ 2,841,096	\$ 2,267,555
Total Loans, Net of Unearned Income	2,899,939	2,339,089	2,036,717	1,904,779	1,483,752
Total Deposits	3,293,934	2,716,712	2,395,146	2,249,892	1,825,913
Total Shareholders’ Equity	519,010	385,476	350,913	321,520	241,018
Per Share Data:					
Net Income ⁽¹⁾	\$ 2.29	\$ 1.99	\$ 1.77	\$ 1.57	\$ 1.51
Cash Dividends	0.68	0.60	0.52	0.48	0.45
Book Value at Year-end	21.51	18.37	15.90	14.42	12.67
Tangible Book Value Per Share ⁽²⁾	16.49	13.81	13.45	11.94	11.57
Other Data at Year-end:					
Number of Shareholders	3,672	3,705	3,459	3,513	3,343
Number of Employees	821	747	621	605	479
Weighted Average Number of Shares ⁽¹⁾	25,824,538	23,381,616	22,924,726	22,391,115	19,888,374
Selected Performance Ratios:					
Return on Assets	1.43%	1.38%	1.35%	1.24%	1.33%
Return on Equity	11.41%	12.07%	11.59%	10.94%	12.47%
Equity to Assets	13.05%	11.67%	11.59%	11.17%	10.63%
Dividend Payout	29.64%	30.25%	29.11%	30.21%	29.97%
Net Charge-offs (Recoveries) to Average Loans	0.17%	0.08%	0.04%	0.04%	0.03%
Allowance for Loan Losses to Loans	0.53%	0.58%	0.73%	0.74%	0.92%
Net Interest Margin	3.92%	3.75%	3.76%	3.75%	3.70%

⁽¹⁾ Share and Per Share Data includes the dilutive effect of stock options.

⁽²⁾ Tangible Book Value per Share is defined as Total Shareholders’ Equity less Goodwill and Other Intangible Assets divided by End of Period Shares Outstanding.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

German American Bancorp, Inc. (the "Company") is a Nasdaq-traded (symbol: GABC) financial holding company based in Jasper, Indiana. The Company, through its banking subsidiary German American Bank, operates 75 banking offices in 20 contiguous southern Indiana counties, eight Kentucky counties and one county in Tennessee. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

The Company was formed in 1982 as a bank holding company under the Bank Holding Company Act of 1956, as amended. Effective September 24, 2019, the Company elected to be a "financial holding company" as permitted under the Gramm-Leach-Bliley Act of 1999, as amended. As a financial holding company, the Company is generally permitted to engage in certain otherwise prohibited nonbanking activities and certain other broader securities, insurance, merchant banking and other activities that the Board of Governors of the Federal Reserve System (the "FRB") has determined to be "financial in nature," or are incidental or complementary to activities that are financial in nature, without prior approval from the FRB (subject to certain exceptions). Upon becoming a financial holding company, the Company began operating GABC Risk Management, Inc., a wholly-owned subsidiary, as a pooled captive insurance company subsidiary to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

Throughout this Management's Discussion and Analysis, as elsewhere in this Report, when we use the term "Company", we will usually be referring to the business and affairs (financial and otherwise) of the Company and its subsidiaries and affiliates as a whole. Occasionally, we will refer to the term "parent company" or "holding company" when we mean to refer to only German American Bancorp, Inc., and the term "Bank" when we mean to refer to only the Company's bank subsidiary.

This Management's Discussion and Analysis includes an analysis of the major components of the Company's operations for the years 2017 through 2019 and its financial condition as of December 31, 2018 and 2019. This information should be read in conjunction with the accompanying consolidated financial statements and footnotes contained elsewhere in this Report and with the description of business included in Item 1 of this Report (including the cautionary disclosure regarding "Forward Looking Statements and Associated Risks"). Financial and other information by segment is included in Note 16 (Segment Information) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and is incorporated into this Item 7 by reference.

The statements of management's expectations and goals concerning the Company's future operations and performance that are set forth in the following Management Overview and in other sections of this Item 7 are forward-looking statements, and readers are cautioned that these forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that is expressed or implied by any forward-looking statement. This Item 7, as well as the discussions in Item 1 ("Business") entitled "Forward-Looking Statements and Associated Risks" and in Item 1A ("Risk Factors") (which discussions are incorporated in this Item 7 by reference) list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any such forward-looking statements.

Any statements of management's expectations and goals concerning the Company's future operations and performance, and future financial condition, liquidity and capital resources that are set forth in the following Management Overview and in other sections of this Item 7 are forward-looking statements, and readers are cautioned that these forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that is expressed or implied by any forward-looking statement. This Item 7, as well as the discussions in Item 1 ("Business") entitled "Forward-Looking Statements and Associated Risks" and in Item 1A ("Risk Factors") (which discussions are incorporated in this Item 7 by reference) list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any such forward-looking statements.

MANAGEMENT OVERVIEW

Net income for the year ended December 31, 2019 totaled \$59,222,000, or \$2.29 per share, an increase of \$12,693,000, or approximately 15% on a per share basis, from the year ended December 31, 2018 net income of \$46,529,000, or \$1.99 per share.

Net income for the year ended December 31, 2018 totaled \$46,529,000 or \$1.99 per share, an increase of \$5,853,000, or approximately 12% on a per share basis, from the year ended December 31, 2017 net income of \$40,676,000 or \$1.77 per share.

Net income for 2018 was positively impacted by lower federal income tax rates that became effective January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The lower federal income tax rates had a positive impact of approximately \$0.26 per share for the year ended December 31, 2018.

Net income for both 2018 and 2019 was impacted by merger and acquisition activity. The year ended December 31, 2019 included acquisition-related expenses of approximately \$3,360,000 (approximately \$2,594,000 or \$0.10 per share, on an after tax basis). The year ended December 31, 2018 included acquisition-related expenses of approximately \$4,592,000 (approximately \$3,526,000 or \$0.15 per share, on an after tax basis).

On July 1, 2019, the Company completed the acquisition of Citizens First Corporation (“Citizens First”) through the merger of Citizens First with and into the Company. Immediately following completion of the Citizens First holding company merger, Citizens First's subsidiary bank, Citizen First Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. Citizens First, headquartered in Bowling Green, Kentucky operated eight retail banking offices through Citizens First Bank, Inc. in Barren, Hart, Simpson and Warren Counties in Kentucky. As of the closing of the transaction, Citizens First had total assets of approximately \$456.0 million, total loans of approximately \$364.6 million, and total deposits of approximately \$370.8 million. The Company issued approximately 1.7 million shares of its common stock, and paid approximately \$15.5 million in cash, in exchange for all of the issued and outstanding shares of common stock of Citizens First.

On October 15, 2018, the Company completed the acquisition of First Security, Inc. (“First Security”) through the merger of First Security with and into the Company. Immediately following completion of the First Security holding company merger, First Security's subsidiary bank, First Security Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. First Security, based in Owensboro, Kentucky, operated 11 retail banking offices, through First Security Bank, Inc., in Owensboro, Bowling Green, Franklin and Lexington, Kentucky and in Evansville and Newburgh, Indiana. As of the closing of the transaction, First Security had total assets of approximately \$553.2 million, total loans of approximately \$390.1 million, and total deposits of approximately \$424.4 million. The Company issued approximately 2.0 million shares of its common stock, and paid approximately \$31.2 million in cash, in exchange for all of the issued and outstanding shares of common stock of First Security and in cancellation of all outstanding options to acquire First Security common stock.

On May 18, 2018, German American Bank completed the acquisition of five branch locations of First Financial Bancorp (formerly branch locations of Mainsource Financial Group, Inc. prior to its merger with First Financial Bancorp on April 1, 2018) and certain related assets, and the assumption by German American Bank of certain related liabilities. Four of the branches are located in Columbus, Indiana, and one in Greensburg, Indiana. German American Bank acquired approximately \$175.7 million in deposits and approximately \$116.3 million in loans associated with the five bank branches. The premium paid on deposits by German American Bank was approximately \$7.4 million. The premium was subject to adjustment to reflect increases or decreases in the deposit balances during the six month period following the closing date. In January 2019, an adjustment of approximately \$0.1 million in additional premium was paid by German American Bank as a result of the change in deposits during the six month measurement period. German American Bank also had the ability, under certain circumstances, to put loans back to First Financial Bancorp's bank subsidiary during such six month period. During the fourth quarter of 2018, approximately \$1.3 million of loans were put back by German American Bank.

For further information regarding these merger and acquisition transactions, see Note 18 (Business Combinations) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for the Company presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements, and selected financial data appearing elsewhere within this Report, are, to a large degree, dependent upon the Company's accounting policies. The selection of and application of these policies involve estimates, judgments, and uncertainties that are subject to change. The critical accounting policies and estimates that the Company has determined to be the most susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, income tax expense, and the valuation of goodwill and other intangible assets.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least

quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits identified as impaired when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

General allocations are made for commercial and agricultural loans that are graded as substandard and special mention based on migration analysis techniques to determine historical average losses for similar types of loans. The migration analysis factors are calculated using a transition matrix to determine the likelihood of a customer's asset quality rating migrating from its current rating to any other rating. General allocations are also made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for economic, external and internal factors and portfolio trends. Economic factors include evaluating changes in international, national, regional and local economic and business conditions that affect the collectability of the loan portfolio. Internal factors include evaluating changes in lending policies and procedures; changes in the nature and volume of the loan portfolio; and changes in experience, ability and depth of lending management and staff. In setting our external and internal factors we also consider the overall level of the allowance for loan losses to total loans; our allowance coverage as compared to similar size bank holding companies; and regulatory requirements.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments, and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

In June 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard became effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period.

ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. As of the beginning of the first reporting period in which the new standard is effective, the Company expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses, since this ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. The Company currently estimates an increase to the allowance for credit losses of approximately \$12 million to \$20 million upon adoption, which is primarily related to the Company's acquired loan portfolio. This estimate and the ongoing impact of adopting this ASU are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of the Company's loans and securities portfolios, and other management judgements. The transition

adjustment to record the allowance for credit losses, which remains subject to further review and analysis by the Company's management team, may fall outside of the estimated increase based on material changes in these factors.

Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired, a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of December 31, 2019, gross unrealized gains on the securities available-for-sale portfolio totaled approximately \$21,780,000 and gross unrealized losses totaled approximately \$1,805,000.

Income Tax Expense

Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations presumed to occur.

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carry-back and carry-forward periods, including consideration of available tax planning strategies. Tax-related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management's intended response to any assessment.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets. They are initially measured at fair value and then are amortized over their estimated useful lives, which range from 6 to 10 years.

RESULTS OF OPERATIONS

NET INCOME

Net income for the year ended December 31, 2019 totaled \$59,222,000, or \$2.29 per share, an increase of \$12,693,000, or approximately 15% on a per share basis, from the year ended December 31, 2018 net income of \$46,529,000, or \$1.99 per share.

Net income for the year ended December 31, 2018 totaled \$46,529,000 or \$1.99 per share, an increase of \$5,853,000, or approximately 12% on a per share basis, from the year ended December 31, 2017 net income of \$40,676,000 or \$1.77 per share.

Net income for 2018 was positively impacted by lower federal income tax rates that became effective January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The lower federal income tax rates had a positive impact of approximately \$0.26 per share for the year ended December 31, 2018.

Net income for both 2018 and 2019 was impacted by merger and acquisition activity (see discussion above under "INTRODUCTION - Management Overview" for additional information). The year ended December 31, 2019 included acquisition-related expenses of approximately \$3,360,000 (approximately \$2,594,000 or \$0.10 per share, on an after tax basis). The year ended December 31,

2018 included acquisition-related expenses of approximately \$4,592,000 (approximately \$3,526,000 or \$0.15 per share, on an after tax basis).

NET INTEREST INCOME

Net interest income is the Company's single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

During the year ended December 31, 2019, net interest income increased \$30,615,000, or 27%, compared with the year ended December 31, 2018. The increased level of net interest income during 2019 compared with 2018 was driven primarily by a higher level of average earning assets resulting from the previously discussed merger and acquisition activity and improvement in the tax equivalent net interest margin.

The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin for the year ended December 31, 2019 was 3.92% compared to 3.75% in 2018. The tax equivalent yield on earning assets totaled 4.75% during 2019 compared to 4.36% in 2018, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.83% during 2019 compared to 0.61% in 2018.

The improvement in the net interest margin during 2019 compared to 2018 was related to improved earning asset yields partially offset by an increased cost of funds largely related to higher short-term market interest rates during much of 2019 compared with 2018. Also positively impacting the net interest margin was an increased level of accretion of loan discounts and recoveries on acquired loans. Accretion of loan discounts and recoveries on acquired loans contributed approximately 30 basis points to the net interest margin during 2019 and 8 basis points in 2018.

Net interest income increased \$14,701,000, or 15%, for the year ended December 31, 2018 compared with 2017. The increased level of net interest income during 2018 compared with 2017 was driven primarily by a higher level of earning assets resulting from organic loan growth and merger and acquisition activity completed during 2018.

The tax equivalent net interest margin for the year ended December 31, 2018 was 3.75% compared to 3.76% in 2017. The tax equivalent yield on earning assets totaled 4.36% during 2018 compared to 4.16% in 2017, while the cost of funds totaled 0.61% during 2018 compared to 0.40% in 2017. The increased yield on earning assets and the increase in the cost of funds during 2018 were both impacted by increased short-term market interest rates.

Accretion of loan discounts on acquired loans contributed approximately 8 basis points to the net interest margin during 2018 compared with 9 basis points in 2017. The lower federal income tax rates during 2018 had an approximately 9 basis point negative impact on the Company's net interest margin and earning asset yield.

The following table summarizes net interest income (on a tax-equivalent basis) for each of the past three years. For tax-equivalent adjustments, an effective tax rate of 21% was used for 2019 and 2018 while an effective tax rate of 35% was used for 2017 ⁽¹⁾.

Average Balance Sheet
(Tax-equivalent basis, dollars in thousands)

	Twelve Months Ended December 31, 2019			Twelve Months Ended December 31, 2018			Twelve Months Ended December 31, 2017		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS									
Federal Funds Sold and Other Short-term Investments	\$ 27,166	\$ 522	1.92%	\$ 18,587	\$ 308	1.65%	\$ 12,405	\$ 134	1.09%
Securities:									
Taxable	546,191	13,910	2.55%	488,291	12,398	2.54%	482,331	10,898	2.26%
Non-taxable	305,266	12,096	3.96%	280,070	11,341	4.05%	262,654	12,697	4.83%
Total Loans and Leases ⁽²⁾	2,899,939	152,836	5.27%	2,339,089	112,437	4.81%	2,036,717	92,449	4.54%
TOTAL INTEREST EARNING ASSETS	3,778,562	179,364	4.75%	3,126,037	136,484	4.36%	2,794,107	116,178	4.16%
Other Assets	366,171			270,022			223,939		
Less: Allowance for Loan Losses	(16,198)			(15,650)			(15,351)		
TOTAL ASSETS	\$ 4,128,535			\$ 3,380,409			\$ 3,002,695		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing Demand Deposits	\$ 1,128,457	\$ 8,643	0.77%	\$ 969,922	\$ 5,755	0.59%	\$ 836,262	\$ 2,893	0.35%
Savings Deposits and Money Market Accounts	733,160	3,406	0.46%	646,636	1,954	0.30%	606,212	1,078	0.18%
Time Deposits	670,802	11,756	1.75%	459,289	5,916	1.29%	380,316	3,123	0.82%
FHLB Advances and Other Borrowings	279,675	7,444	2.66%	257,737	5,514	2.14%	233,315	4,027	1.73%
TOTAL INTEREST-BEARING LIABILITIES	2,812,094	31,249	1.11%	2,333,584	19,139	0.82%	2,056,105	11,121	0.54%
Demand Deposit Accounts	761,515			640,865			572,356		
Other Liabilities	35,916			20,484			23,321		
TOTAL LIABILITIES	3,609,525			2,994,933			2,651,782		
Shareholders' Equity	519,010			385,476			350,913		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,128,535			\$ 3,380,409			\$ 3,002,695		
COST OF FUNDS									
			0.83%			0.61%			0.40%
NET INTEREST INCOME									
		\$ 148,115			\$ 117,345			\$ 105,057	
NET INTEREST MARGIN									
			3.92%			3.75%			3.76%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans. Interest income on loans includes loan fees of \$8,397, \$3,151, and \$3,216 for 2019, 2018 and 2017, respectively.

The following table sets forth for the periods indicated a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates:

Net Interest Income – Rate / Volume Analysis
(Tax-Equivalent basis, dollars in thousands)

	2019 compared to 2018 Increase / (Decrease) Due to ⁽¹⁾			2018 compared to 2017 Increase / (Decrease) Due to ⁽¹⁾		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income:						
Federal Funds Sold and Other						
Short-term Investments	\$ 159	\$ 55	\$ 214	\$ 86	\$ 88	\$ 174
Taxable Securities	1,474	31	1,505	136	1,365	1,501
Non-taxable Securities	1,003	(241)	762	802	(2,159)	(1,357)
Loans and Leases	28,813	11,586	40,399	14,304	5,684	19,988
Total Interest Income	31,449	11,431	42,880	15,328	4,978	20,306
Interest Expense:						
Savings and Interest-bearing Demand	1,293	3,047	4,340	529	3,209	3,738
Time Deposits	3,275	2,565	5,840	747	2,046	2,793
FHLB Advances and Other Borrowings	499	1,431	1,930	452	1,035	1,487
Total Interest Expense	5,067	7,043	12,110	1,728	6,290	8,018
Net Interest Income	\$ 26,382	\$ 4,388	\$ 30,770	\$ 13,600	\$ (1,312)	\$ 12,288

⁽¹⁾ The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

See the Company's Average Balance Sheet above and the discussions under the headings "USES OF FUNDS," "SOURCES OF FUNDS," and "RISK MANAGEMENT – Liquidity and Interest Rate Risk Management" for further information on the Company's net interest income, net interest margin, and interest rate sensitivity position.

PROVISION FOR LOAN LOSSES

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations required on the allowance for loan losses. Provisions for loan losses totaled \$5,325,000, \$2,070,000, and \$1,750,000 in 2019, 2018, and 2017, respectively.

During 2019, the provision for loan loss represented approximately 18 basis points of average loans on an annualized basis. The increased level of provision during 2019 was largely related to an increased level of net charge-offs during 2019 compared with 2018. The Company realized net charge-offs of \$4,870,000 or 17 basis points of average loans outstanding during 2019. The increase in net charge-offs during 2019 was primarily attributable to partial charge-offs on two adversely classified commercial lending relationship in the second half of 2019.

During 2018, the provision for loan loss represented approximately 9 basis points of average loans on an annualized basis. The increased level of provision during 2018 was largely related to an increased level of net charge-offs during 2018 compared with 2017. The Company realized net charge-offs of \$1,941,000 or 8 basis points of average loans outstanding during 2018. The increase in net charge-offs during 2018 was primarily attributable to a partial charge-off on a single commercial lending relationship in the first quarter of 2018 that was downgraded and largely reserved for during the fourth quarter of 2017.

The Company's allowance for loan losses represented 0.53% of total loans at year-end 2019 compared with 0.58% of total loans at year-end 2018. Under acquisition accounting, loans are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. The Company's allowance for loan losses represented 0.73% of total non-acquired loans at year-end 2019 compared with 0.77% of total non-acquired loans at year-end 2018.

Provisions for loan losses in all periods were made at levels deemed necessary by management to absorb estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provisions for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other qualitative factors. Refer also to the sections entitled "CRITICAL

ACCOUNTING POLICIES AND ESTIMATES" and "RISK MANAGEMENT - Lending and Loan Administration" for further discussion of the provision and allowance for loan losses.

NON-INTEREST INCOME

During the year ended December 31, 2019, non-interest income increased \$8,431,000, or 23%, from the year ended December 31, 2018. During the year ended December 31, 2018, non-interest income increased \$5,216,000, or 16%, from the year ended December 31, 2017.

Non-interest Income (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2019	2018	2017	2019	2018
Trust and Investment Product Fees	\$ 7,278	\$ 6,680	\$ 5,272	9%	27 %
Service Charges on Deposit Accounts	8,718	7,044	6,178	24	14
Insurance Revenues	8,940	8,330	7,979	7	4
Company Owned Life Insurance	2,005	1,243	1,341	61	(7)
Interchange Fee Income	9,450	7,278	4,567	30	59
Other Operating Income	3,229	2,785	2,641	16	5
Subtotal	39,620	33,360	27,978	19	19
Net Gains on Sales of Loans	4,633	3,004	3,280	54	(8)
Net Gains on Securities	1,248	706	596	77	18
TOTAL NON-INTEREST INCOME	\$ 45,501	\$ 37,070	\$ 31,854	23	16

Trust and investment product fees increased \$598,000, or 9%, during 2019 compared with 2018. Trust and investment product fees increased \$1,408,000, or 27%, during 2018 compared with 2017. The increase in both years was primarily attributable to fees generated from increased assets under management in the Company's wealth management group.

Service charges on deposit accounts increased \$1,674,000, or 24%, during 2019 compared with 2018. Service charges on deposit accounts increased \$866,000, or 14%, during 2018 compared with 2017. The increase during both 2019 and 2018 compared with prior periods was positively impacted by the acquisition activity completed during 2018 and 2019.

Insurance revenues increased \$610,000, or 7%, during 2019 compared with 2018. The increase during 2019 was attributable to increased commercial insurance revenue and personal insurance revenue as well as increased contingency revenue. Insurance revenues increased \$351,000, or 4%, during 2018 compared with 2017 primarily due to increased contingency revenue. Contingency revenue totaled \$1,375,000 in 2019 compared with \$1,218,000 in 2018 and \$992,000 in 2017. Contingency revenue is reflective of claims and loss experience with insurance carriers that the Company represents through its property and casualty insurance agency.

Company owned life insurance revenue increased \$762,000, or 61%, during 2019 compared with 2018. The increase was largely related to death benefits received from life insurance policies during 2019 with additional increases resulting from the acquisitions completed during 2018 and 2019. Company owned life insurance revenue declined \$98,000, or 7%, during 2018 compared with 2017.

Interchange fees increased \$2,172,000, or 30%, during 2019 compared to 2018. The increase during 2019 was largely attributable to increased card utilization by customers and the acquisition activity completed during 2018 and 2019. Interchange fees increased \$2,711,000, or 59%, during 2018 compared to 2017. The increase during 2018 compared with 2017 was largely attributable to increased card utilization by customers, the acquisition activity completed during 2018 and to the adoption of the new revenue recognition standard effective January 1, 2018. While the adoption of the standard did not have a significant impact on the Company's financial results, the recording of revenue gross versus net of certain expenses, in accordance with the standard, did result in the reclassification of some expenses associated with the interchange fee revenue during 2018. The reclassification of this expense for 2018 totaled \$1,244,000.

Net gains on sales of loans increased \$1,629,000, or 54%, during 2019 compared with 2018. The increase in the net gain on sales of loans during 2019 compared with 2018 was largely attributable to the higher volume of loans sold. Net gains on sales of loans declined \$276,000, or 8%, during 2018 compared with 2017. The decline in the net gain on sales of loans during 2018 compared with 2017 was largely attributable to lower pricing levels on loans sold. Loan sales for 2019, 2018, and 2017 totaled \$185.4 million, \$135.3 million, and \$130.3 million, respectively.

During 2019, the Company realized net gains on the sale of securities of \$1,248,000 related to the sale of approximately \$81.4 million of securities. During 2018, the Company realized net gains on the sale of securities of \$706,000 related to the sale of approximately \$90.3 million of securities. During 2017, the Company realized net gains on the sale of securities of \$596,000 related to the sale of approximately \$48.3 million of securities.

NON-INTEREST EXPENSE

During 2019, non-interest expense increased \$20,609,000, or 22%, compared with 2018. During 2018, non-interest expense increased of \$15,750,000, or 20%, compared with 2017. The level of non-interest expenses in both 2019 and 2018 was largely impacted by the inclusion of operating expenses related to the branch acquisition completed during the second quarter of 2018 and bank acquisitions completed in the fourth quarter of 2018 and third quarter of 2019. Acquisition-related expenses of a non-recurring nature totaled \$3,360,000 during 2019 and \$4,592,000 during 2018.

Non-interest Expense (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2019	2018	2017	2019	2018
Salaries and Employee Benefits	\$ 63,885	\$ 51,306	\$ 46,642	25 %	10 %
Occupancy, Furniture and Equipment Expense	13,776	10,877	9,230	27	18
FDIC Premiums	533	1,033	954	(48)	8
Data Processing Fees	7,927	6,942	4,276	14	62
Professional Fees	4,674	5,362	2,817	(13)	90
Advertising and Promotion	4,230	3,492	3,543	21	(1)
Intangible Amortization	3,721	1,752	942	112	86
Other Operating Expenses	15,416	12,789	9,399	21	36
TOTAL NON-INTEREST EXPENSE	\$ 114,162	\$ 93,553	\$ 77,803	22	20

Salaries and benefits increased \$12,579,000, or 25%, during 2019 compared with 2018. Salaries and benefits increased \$4,664,000, or 10%, during 2018 compared with 2017. The increase during both 2019 and 2018 compared with prior periods was largely attributable to an increased number of full-time equivalent employees due primarily to the acquisition transactions completed during 2018 and 2019.

Occupancy, furniture and equipment expense increased \$2,899,000, or 27%, during 2019 compared with 2018 and increased \$1,647,000, or 18%, during 2018 compared with 2017. The increase during both 2019 and 2018 compared to prior periods was primarily due to operating costs related to the acquisition activity during 2018 and 2019.

FDIC premiums declined \$500,000, or 48%, during 2019 compared with 2018. The decline in FDIC premiums is attributable to credits received from the FDIC in 2019. The credits received were due to the reserve ratio of the deposit insurance fund exceeding the FDIC's targeted levels. FDIC premiums increased \$79,000, or 8%, during 2018 compared with 2017.

Data processing fees increased \$985,000, or 14%, during 2019 compared with 2018 and increased \$2,666,000, or 62%, during 2018 compared to 2017. The increase in data processing fees during 2019 compared with 2018 was largely related to the on-going operating costs associated with the acquisitions completed during 2018 and 2019. The increase in 2018 compared with 2017 was largely related to operating costs and non-recurring costs associated with merger and acquisition activities during 2018. Acquisition-related costs of a non-recurring nature totaled \$1,235,000 during 2019 and \$2,002,000 during 2018.

Professional fees declined \$688,000, or 13%, during 2019 compared with 2018. The decline in professional fees during 2019 compared with 2018 was largely related to lower levels of merger and acquisition related professional fees. Merger and acquisition related professional fees totaled approximately \$1,167,000 during 2019 compared to \$1,738,000 during 2018. Professional fees increased \$2,545,000, or 90%, during 2018 compared with 2017. The increase was primarily due to professional fees related to merger and acquisition activities which totaled \$1,738,000 during 2018 and approximately \$930,000 in fees related to certain contract negotiations not related to the acquisition activity.

Advertising and promotion expense increased \$738,000, or 21%, in 2019 compared with 2018. The increase in advertising and promotion expense was largely related to the entry into new markets for the Company through the merger and acquisition activity during 2018 and 2019. Advertising and promotion declined \$51,000, or 1%, in 2018 compared with 2017.

Intangible amortization increased \$1,969,000, or 112%, during 2019 compared with 2018 and increased \$810,000, or 86%, during 2018 compared with 2017. The increase in intangible amortization was attributable to the previously discussed acquisition transactions completed during 2018 and 2019.

Other operating expenses increased \$2,627,000, or 21%, during 2019 compared with 2018. The increase during 2019 compared with 2018 was largely attributable to the operating costs related to the acquisitions completed in 2018 and 2019. Other operating expenses increased \$3,390,000, or 36%, during 2018 compared with 2017. The increase during 2018 was largely attributable to the operating costs related to the acquisitions completed in 2018 and to the adoption of the revenue recognition standard effective January 1, 2018 and the reclassification of expenses as previously discussed. The reclassification of this expense for 2018 totaled \$1,244,000.

PROVISION FOR INCOME TAXES

The Company records a provision for current income taxes payable, along with a provision for deferred taxes payable in the future. Deferred taxes arise from temporary differences, which are items recorded for financial statement purposes in a different period than for income tax returns. The Company's effective tax rate was 16.9%, 17.0%, and 22.1%, respectively, in 2019, 2018, and 2017. The effective tax rate in all periods is lower than the blended statutory rate. The lower effective rate in all periods primarily resulted from the Company's tax-exempt investment income on securities, loans, and company owned life insurance, income tax credits generated by investments in affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax.

The Company's effective tax rate and provision for income tax was positively impacted during 2018 by the reduction of federal income tax rates from a statutory rate of 35% to 21% effective January 1, 2018 related to the enactment of the Tax Act during the fourth quarter of 2017. As a result of the enactment of the Tax Act, the Company revalued its deferred tax assets and deferred tax liabilities during the fourth quarter of 2017 which resulted in a net tax benefit of \$2,284,000 and consequently impacted the effective tax rate for 2017 as well.

See Note 10 to the Company's consolidated financial statements included in Item 8 of this Report for additional details relative to the Company's income tax provision.

CAPITAL RESOURCES

As of December 31, 2019, shareholders' equity increased by \$115.2 million to \$573.8 million compared with \$458.6 million at year-end 2018. The increase in shareholders' equity was in part attributable to the issuance of the Company's common shares in the acquisition of Citizens First. Approximately 1.7 million shares were issued to Citizens First shareholders resulting in an increase to shareholders' equity of \$50.0 million. The increase in shareholders' equity was also attributable to an increase of \$41.7 million in retained earnings and an increase of \$22.2 million in accumulated other comprehensive income primarily related to the increase in value of the Company's available-for-sale securities portfolio. Shareholders' equity represented 13.0% of total assets at December 31, 2019 and 11.7% of total assets at December 31, 2018. Shareholders' equity included \$134.0 million of goodwill and other intangible assets at December 31, 2019 compared to \$113.6 million of goodwill and other intangible assets at December 31, 2018.

On January 27, 2020, the Company's Board of Directors approved a plan to repurchase up to one million shares of the Company's outstanding common stock. On a share basis, the amount of common stock subject to the repurchase plan represents approximately 4% of the Company's outstanding shares. The Company is not obligated to purchase any shares under the plan, and the plan may be discontinued at any time. The actual timing, number and share price of shares purchased under the repurchase plan will be determined by the Company at its discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. At the time it approved the new plan, the Board also terminated a similar program that had been adopted in 2001. At the time of its termination, the Company had been authorized to purchase up to 409,184 shares of common stock under the 2001 program. The Company has not repurchased any shares of common stock under the 2020 repurchase plan.

Federal banking regulations provide guidelines for determining the capital adequacy of bank holding companies and banks. These guidelines provide for a more narrow definition of core capital and assign a measure of risk to the various categories of assets. The Company is required to maintain minimum levels of capital in proportion to total risk-weighted assets and off-balance sheet exposures.

As of January 1, 2015, the Company and its subsidiary bank adopted the new Basel III regulatory capital framework. The adoption of this new framework modified the regulatory capital calculations, minimum capital levels and well-capitalized thresholds and added the new Common Equity Tier 1 capital ratio. Additionally, under the new rules, in order to avoid limitations on capital

distributions, including dividend payments, the Company is required to maintain a capital conservation buffer above the adequately capitalized regulatory capital ratios. The capital conservation buffer was phased in from 0.00% in 2015 to 2.50% in 2019. For December 31, 2019, the capital conservation buffer was 2.50% and for December 31, 2018, the capital conservation buffer was 1.875%. At December 31, 2019, the capital levels for the Company and its subsidiary bank remained well in excess of the minimum amounts needed for capital adequacy purposes and the Bank's capital levels met the necessary requirements to be considered well-capitalized.

The table below presents the Company's consolidated and the subsidiary bank's capital ratios under regulatory guidelines:

	12/31/2019 Ratio	12/31/2018 Ratio	Minimum for Capital Adequacy Purposes ⁽¹⁾	Well-Capitalized Guidelines
Total Capital (to Risk Weighted Assets)				
Consolidated	14.28%	12.36%	8.00%	N/A
Bank	12.82	12.37	8.00	10.00%
Tier 1 (Core) Capital (to Risk Weighted Assets)				
Consolidated	12.67%	11.85%	6.00%	N/A
Bank	12.35	11.86	6.00	8.00%
Common Equity Tier 1 (CET 1) Capital Ratio (to Risk Weighted Assets)				
Consolidated	12.23%	11.48%	4.50%	N/A
Bank	12.35	11.86	4.50	6.50%
Tier 1 Capital (to Average Assets)				
Consolidated	10.53%	9.75%	4.00%	N/A
Bank	10.27	9.78	4.00	5.00%

⁽¹⁾ Excludes capital conservation buffer.

Under the final rules provided for by Basel III, accumulated other comprehensive income ("AOCI") was to be included in a banking organization's Common Equity Tier 1 capital. The final rules allowed community banks to make a one-time election not to include the additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The Company elected, in its March 31, 2015 regulatory filings (Call Report and FR Y-9), to opt-out and continue the existing treatment of AOCI for regulatory capital purposes.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to, among other things: (i) address the upcoming implementation of the CECL accounting standard under GAAP; and (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL. The Company anticipates adopting the capital transition relief over the permissible three-year period.

USES OF FUNDS

LOANS

December 31, 2019 total loans increased \$350.2 million, or 13%, compared with December 31, 2018. Loan growth during 2019 was impacted in each quarterly period by elevated large pay-offs within the agricultural and commercial loan portfolios. The majority of the increase in outstanding loans as of December 31, 2019 compared with December 31, 2018 was attributable to the acquisition of Citizens First. As of December 31, 2019, outstanding loans from the Citizens First acquisition totaled approximately \$320.3 million.

December 31, 2018 total loans increased \$586.7 million compared with year-end 2017. The increase in outstanding loans was largely impacted by the acquisitions completed during 2018. As of December 31, 2018, outstanding loans from the First Security transaction, which closed in October 2018, totaled \$374.5 million. At December 31, 2018, the loans acquired as a part of the branch acquisition, which closed in May 2018, totaled \$106.0 million.

The composition of the loan portfolio has remained relatively stable and diversified over the past several years, including 2019. The portfolio is most heavily concentrated in commercial real estate loans at 49% of the portfolio. The Company's exposure to non-owner occupied commercial real estate, including multi-family housing, was limited to approximately 32% of the total loan portfolio at year-end 2019. The Company's commercial lending is extended to various industries, including multi-family housing and lodging, agribusiness and manufacturing, as well as health care, wholesale, and retail services. The Company also continues to have only limited exposure in construction and development lending with this segment representing approximately 6% of the total loan portfolio.

Loan Portfolio	December 31,					
(dollars in thousands)	2019	2018	2017	2016	2015	
Commercial and Industrial Loans and Leases	\$ 589,758	\$ 543,761	\$ 486,668	\$ 457,372	\$ 418,154	
Commercial Real Estate Loans	1,495,862	1,208,646	926,729	856,094	618,788	
Agricultural Loans	384,526	365,208	333,227	303,128	246,886	
Home Equity and Consumer Loans	306,972	285,534	219,662	193,520	147,931	
Residential Mortgage Loans	304,855	328,592	178,733	183,290	136,316	
Total Loans	3,081,973	2,731,741	2,145,019	1,993,404	1,568,075	
Less: Unearned Income	(4,882)	(3,682)	(3,381)	(3,449)	(3,728)	
Subtotal	3,077,091	2,728,059	2,141,638	1,989,955	1,564,347	
Less: Allowance for Loan Losses	(16,278)	(15,823)	(15,694)	(14,808)	(14,438)	
Loans, Net	\$ 3,060,813	\$ 2,712,236	\$ 2,125,944	\$ 1,975,147	\$ 1,549,909	

Ratio of Loans to Total Loans

Commercial and Industrial Loans and Leases	19%	20%	23%	23%	27%
Commercial Real Estate Loans	49%	44%	43%	43%	39%
Agricultural Loans	12%	13%	16%	15%	16%
Home Equity and Consumer Loans	10%	11%	10%	10%	9%
Residential Mortgage Loans	10%	12%	8%	9%	9%
Total Loans	100%	100%	100%	100%	100%

The Company's policy is generally to extend credit to consumer and commercial borrowers in its primary geographic market area in southern Indiana and central and western Kentucky. Commercial extensions of credit outside this market area are generally concentrated in real estate loans within a reasonable proximity of the Company's primary market and are granted on a selective basis.

The following table indicates the amounts of loans (excluding residential mortgages on 1-4 family residences and consumer loans) outstanding as of December 31, 2019, which, based on remaining scheduled repayments of principal, are due in the periods indicated (dollars in thousands).

	Within One Year	One to Five Years	After Five Years	Total
Commercial and Agricultural	\$ 972,693	\$ 1,262,651	\$ 257,000	\$ 2,492,344

Interest Sensitivity			
	Fixed Rate	Variable Rate	
Loans Maturing After One Year	\$ 435,717	\$ 1,083,934	

INVESTMENTS

The investment portfolio is a principal source for funding the Company's loan growth and other liquidity needs of its subsidiaries. The Company's securities portfolio primarily consists of money market securities, uncollateralized federal agency securities, municipal obligations of state and political subdivisions, and mortgage-backed securities and collateralized mortgage obligations (MBS/CMO - Residential) issued by U.S. government agencies. Money market securities include federal funds sold, interest-bearing balances with banks, and other short-term investments. The composition of the year-end balances in the investment portfolio is presented in Note 2 (Securities) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and in the table below:

Investment Portfolio, at Amortized Cost (dollars in thousands)		December 31,					
		2019	%	2018	%	2017	%
Federal Funds Sold and Other Short-term Investments	\$	43,913	5%	\$ 32,001	4%	\$ 23,093	3%
Obligations of State and Political Subdivisions		307,943	35	291,449	34	267,437	35
MBS/CMO - Residential		526,907	60	529,805	62	476,205	62
Equity Securities		353	n/m ⁽¹⁾	353	n/m ⁽¹⁾	353	n/m ⁽¹⁾
Total Securities Portfolio	\$	879,116	100%	\$ 853,608	100%	\$ 767,088	100%

⁽¹⁾ n/m = not meaningful

The amortized cost of investment securities, including federal funds sold and short-term investments, increased \$25.5 million, or 3%, at year-end 2019 compared with year-end 2018 and increased \$86.5 million, or 11%, at year-end 2018 compared with year-end 2017. The increase during 2018 was largely attributable to the First Security acquisition. The largest component in the investment portfolio continues to be in mortgage related securities, which totaled \$526.9 million and represents 60% of the total securities portfolio at December 31, 2019. The Company's level of obligations of state and political subdivisions increased to \$307.9 million or 35% of the portfolio at December 31, 2019.

Investment Securities, at Carrying Value (dollars in thousands)		December 31,		
		2019	2018	2017
Securities Available-for-Sale				
Obligations of State and Political Subdivisions	\$	324,300	\$ 294,533	\$ 273,309
MBS/CMO - Residential		530,525	518,078	467,332
Total Securities	\$	854,825	\$ 812,611	\$ 740,641

The Company's \$854.8 million available-for-sale investment portfolio provides an additional funding source for the liquidity needs of the Company's subsidiaries and for asset/liability management requirements. Although management has the ability to sell these securities if the need arises, their designation as available-for-sale should not necessarily be interpreted as an indication that management anticipates such sales.

The amortized cost of available-for-sale debt securities at December 31, 2019 is shown in the following table by contractual maturity. MBS/CMO - Residential securities are based on estimated average lives. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations. Equity securities do not have contractual maturities, and are excluded from the table below.

Maturities and Average Yields of Securities at December 31, 2019 (dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of State and Political Subdivisions	\$ 2,512	3.19%	\$ 19,642	4.21%	\$ 68,972	4.21%	\$ 216,817	4.01%
MBS/CMO - Residential	—	—%	12	3.68%	42,380	2.17%	484,515	2.47%
Total Securities	\$ 2,512	3.19%	\$ 19,654	4.21%	\$ 111,352	3.43%	\$ 701,332	2.95%

A tax-equivalent adjustment using a tax rate of 21 percent was used in the above table.

In addition to the other uses of funds discussed previously, the Company had certain long-term contractual obligations as of December 31, 2019. These contractual obligations primarily consisted of long-term borrowings with the Federal Home Loan Bank (“FHLB”) and junior subordinated debentures, time deposits, and lease commitments for certain office facilities. Scheduled principal payments on long-term borrowings, time deposits, and future minimum lease payments are outlined in the table below.

Contractual Obligations (dollars in thousands)	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term Borrowings	\$ 179,355	\$ 40,573	\$ 58,000	\$ 25,000	\$ 55,782
Time Deposits	631,396	473,080	130,960	27,139	217
Finance Lease Obligations	6,406	487	1,013	1,056	3,850
Operating Lease Commitments	7,762	1,713	2,738	1,937	1,374
Postretirement Benefit Payments	1,292	96	224	246	726
Total Contractual Obligations	<u>\$ 826,211</u>	<u>\$ 515,949</u>	<u>\$ 192,935</u>	<u>\$ 55,378</u>	<u>\$ 61,949</u>

SOURCES OF FUNDS

The Company’s primary source of funding is its base of core customer deposits. Core deposits consist of demand deposits, savings, interest-bearing checking, money market accounts, and certificates of deposit of less than \$100,000. Other sources of funds are certificates of deposit of \$100,000 or more, brokered deposits, overnight borrowings from other financial institutions and securities sold under agreement to repurchase. The membership of the Company’s affiliate bank in the Federal Home Loan Bank System provides a significant additional source for both long and short-term collateralized borrowings. In addition, the Company, as a separate and distinct corporation from its bank and other subsidiaries, also has the ability to borrow funds from other financial institutions and to raise debt or equity capital from the capital markets and other sources. The following pages contain a discussion of changes in these areas.

The table below illustrates changes between years in the average balances of all funding sources:

Funding Sources - Average Balances (dollars in thousands)	December 31,			% Change From Prior Year	
	2019	2018	2017	2019	2018
Demand Deposits					
Non-interest-bearing	\$ 761,515	\$ 640,865	\$ 572,356	19%	12%
Interest-bearing	1,128,457	969,922	836,262	16	16
Savings Deposits	293,044	254,581	233,056	15	9
Money Market Accounts	440,116	392,055	373,156	12	5
Other Time Deposits	285,208	206,864	204,371	38	1
Total Core Deposits	<u>2,908,340</u>	<u>2,464,287</u>	<u>2,219,201</u>	<u>18</u>	<u>11</u>
Certificates of Deposits of \$100,000 or more and Brokered Deposits	385,594	252,425	175,945	53	43
FHLB Advances and Other Borrowings	279,675	257,737	233,315	9	10
Total Funding Sources	<u>\$ 3,573,609</u>	<u>\$ 2,974,449</u>	<u>\$ 2,628,461</u>	<u>20</u>	<u>13</u>

Maturities of certificates of deposit of \$100,000 or more and brokered deposits are summarized as follows:
(dollars in thousands)

	3 Months Or Less	3 Thru 6 Months	6 Thru 12 Months	Over 12 Months	Total
December 31, 2019	\$ 86,916	\$ 68,768	\$ 93,023	\$ 67,900	\$ 316,607

CORE DEPOSITS

The Company’s overall level of average core deposits increased approximately \$444.1 million, or 18%, during 2019 following a \$245.1 million, or 11%, increase during 2018. During 2019, average demand deposits (non-interest bearing and interest bearing) increased \$279.2 million, average savings deposits increased \$38.5 million, average money market demand deposits increased \$48.1 million and average time deposits under \$100,000 increased \$78.3 million. The acquisition activity which occurred during the second quarter of 2018, fourth quarter of 2018 and third quarter of 2019 was a significant contributor to the increased level of average core deposits during 2019 compared with 2018.

The Company's ability to attract core deposits continues to be influenced by competition and the interest rate environment, as well as the availability of alternative investment products. Core deposits continue to represent a significant funding source for the Company's operations and represented 81% of average total funding sources during 2019 compared with 83% during 2018 and 84% during 2017.

Demand, savings, and money market deposits have provided a growing source of funding for the Company in each of the periods reported. Average demand, savings, and money market deposits increased 16% during 2019 following 12% growth during 2018. Average demand, savings, and money market deposits totaled \$2.623 billion or 90% of core deposits (73% of total funding sources) in 2019 compared with \$2.257 billion or 92% of core deposits (76% of total funding sources) in 2018 and \$2.015 billion or 91% of core deposits (77% of total funding sources) in 2017.

Other time deposits consist of certificates of deposits in denominations of less than \$100,000. These average deposits increased by 38% during 2019 following an increase of 1% during 2018. Other time deposits comprised 10% of core deposits in 2019, 8% in 2018 and 9% in 2017.

OTHER FUNDING SOURCES

Certificates of deposits in denominations of \$100,000 or more and brokered deposits are an additional source of other funding for the Company's bank subsidiary. Large denomination certificates and brokered deposits increased \$133.2 million, or 53%, during 2019 following an increase of \$76.5 million, or 43% during 2018. Large certificates and brokered deposits comprised approximately 11% of average total funding sources in 2019 compared with 8% in 2018 and 7% in 2017. This type of funding is used as both long-term and short-term funding sources.

Federal Home Loan Bank advances and other borrowings represent a significant source of other funding for the Company. Average borrowed funds increased \$21.9 million, or 9%, during 2019 following an increase of \$24.4 million, or 10%, during 2018. Borrowings comprised approximately 8% of average total funding sources during 2019 compared with 9% in both 2017 and 2018.

The bank subsidiary of the Company also utilizes short-term funding sources from time to time. These sources consist of overnight federal funds purchased from other financial institutions, secured repurchase agreements that generally mature within one day of the transaction date, and secured overnight variable rate borrowings from the FHLB. These borrowings represent an important source of short-term liquidity for the Company's bank subsidiary. Long-term debt at the Company's bank subsidiary is in the form of FHLB advances, which are secured by the pledge of certain investment securities, residential and housing-related mortgage loans, and certain other commercial real estate loans. See Note 7 (FHLB Advances and Other Borrowings) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report for further information regarding borrowed funds.

PARENT COMPANY FUNDING SOURCES

The parent company is a corporation separate and distinct from its bank and other subsidiaries. For information regarding the financial condition, result of operations, and cash flows of the Company, presented on a parent-company-only basis, see Note 17 (Parent Company Financial Statements) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

The Company uses funds at the parent company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes. The parent company does not have access to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. See Note 8 (Shareholders' Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which is incorporated herein by reference. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings, which are discussed in detail below.

On June 25, 2019, the Company entered into Subordinated Note Purchase Agreements (collectively, the "Purchase Agreement") with certain qualified institutional buyers and institutional accredited investors (the "Purchasers") pursuant to which the Company sold and issued \$40.0 million in aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2029 (the "Notes"). The Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company used the proceeds from the offering to pay \$15.0 million of the approximately \$15.5 million of cash consideration upon closing of the Citizens First Corporation merger and the remaining balance to repay the Company's \$25.0 million term loan from U.S. Bank National Association dated October 11, 2018.

The Notes have a ten-year term, from and including the date of issuance to but excluding June 30, 2024, and will bear interest at a fixed annual rate of 4.50%, payable semi-annually in arrears. From and including June 30, 2024 to but excluding the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then-current three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 268 basis points, payable quarterly in arrears. The Notes are redeemable, in whole or in part, on June 30, 2024, on any scheduled interest payment date thereafter and at any time upon the occurrence of certain events. The Purchase Agreement contains certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand.

On June 25, 2019, in connection with the sale and issuance of the Notes, the Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the Purchasers. Pursuant to the Registration Rights Agreement, the Company completed on November 4, 2019, an offer to exchange its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2029, which were registered under the Securities Act of 1933, as amended, for any and all of the outstanding Notes, with beneficial owners holding an aggregate principal amount of \$36.5 million electing to participate in the exchange.

The Notes, including the registered exchange notes, were issued under an Indenture, dated June 25, 2019 (the “Indenture”), by and between the Company and U.S. Bank National Association, as trustee. The Notes are not subject to any sinking fund and are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. The Notes are unsecured, subordinated obligations of the Company only and are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank junior in right to payment to the Company’s current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company.

At year-end 2019, the Company had available to it a \$15 million revolving line of credit facility that will mature on September 28, 2020. Borrowings are available for general working capital purposes. Interest is payable quarterly at a floating rate based upon one-month LIBOR plus a margin payable in respect of any principal amounts advanced under the revolving line of credit. There was no outstanding balance as of December 31, 2019.

Effective January 1, 2011, and as a result of the acquisition of American Community Bancorp, Inc., the Company assumed long-term debt obligations of American Community in the form of two junior subordinated debentures issued by American Community in the aggregate unpaid principal amount of approximately \$8.3 million. Effective March 1, 2016, and as a result of the acquisition of River Valley Bancorp, the Company assumed long-term debt obligations of River Valley in the form of a junior subordinated debenture issued by River Valley in the aggregate unpaid principal amount of approximately \$7.2 million. Effective July 1, 2019, and as a result of the acquisition of Citizens First Bancorp, the Company assumed long-term debt obligations of Citizens First in the form of a junior subordinated debenture issued by Citizens First in the aggregate unpaid principal amount of approximately \$5.2 million.

The junior subordinated debentures were issued to certain statutory trusts established by River Valley, American Community, and Citizens First (in support of related issuances of trust preferred securities issued by those trusts) and mature in installments of principal payable in 2033, 2035 and 2037, respectively, and bear interest payable on a quarterly basis at a floating rate, adjustable quarterly based on the three-month LIBOR plus a specified percentage. These debentures are of a type that are eligible (under current regulatory capital requirements) to qualify as Tier 1 capital (with certain limitations) for regulatory purposes and as of December 31, 2019 approximately \$15.4 million of the junior subordinated debentures were treated as Tier 1 capital for regulatory capital purposes.

See Note 17 (Parent Company Financial Statements) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report for further information regarding the parent company borrowed funds and other indebtedness.

RISK MANAGEMENT

The Company is exposed to various types of business risk on an on-going basis. These risks include credit risk, liquidity risk and interest rate risk. Various procedures are employed at the Company’s subsidiary bank to monitor and mitigate risk in the loan and investment portfolios, as well as risks associated with changes in interest rates. Following is a discussion of the Company’s philosophies and procedures to address these risks.

LENDING AND LOAN ADMINISTRATION

Primary responsibility and accountability for day-to-day lending activities rests with the Company’s subsidiary bank. Loan personnel at the subsidiary bank have the authority to extend credit under guidelines approved by the bank’s board of directors. The executive loan committee serves as a vehicle for communication and for the pooling of knowledge, judgment and experience

of its members. The committee provides valuable input to lending personnel, acts as an approval body, and monitors the overall quality of the bank's loan portfolio. The Corporate Credit Risk Management Committee comprised of members of the Company's and its subsidiary bank's executive officers and board of directors, strives to ensure a consistent application of the Company's lending policies. The Company also maintains a comprehensive risk-grading and loan review program, which includes quarterly reviews of problem loans, delinquencies and charge-offs. The purpose of this program is to evaluate loan administration, credit quality, loan documentation and the adequacy of the allowance for loan losses.

The Company maintains an allowance for loan losses to cover probable, incurred credit losses identified during its loan review process. Management estimates the required level of allowance for loan losses using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses is comprised of: (a) specific reserves on individual credits; (b) general reserves for certain loan categories and industries, and overall historical loss experience; and (c) unallocated reserves based on performance trends in the loan portfolios, current economic conditions, and other factors that influence the level of estimated probable losses. The need for specific reserves are considered for credits when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring.

Allowance for Loan Losses (dollars in thousands)	Years Ended December 31,				
	2019	2018	2017	2016	2015
Balance of Allowance for Possible Losses at Beginning of Period	\$ 15,823	\$ 15,694	\$ 14,808	\$ 14,438	\$ 14,929
Loans Charged-off:					
Commercial and Industrial Loans and Leases	3,810	1,500	151	66	36
Commercial Real Estate Loans	320	49	220	54	350
Agricultural Loans	—	—	49	22	—
Home Equity and Consumer Loans	1,155	922	765	612	345
Residential Mortgage Loans	117	75	93	346	233
Total Loans Charged-off	5,402	2,546	1,278	1,100	964
Recoveries of Previously Charged-off Loans:					
Commercial and Industrial Loans and Leases	56	141	14	32	102
Commercial Real Estate Loans	29	20	48	10	107
Agricultural Loans	—	20	9	1	—
Home Equity and Consumer Loans	440	387	280	211	246
Residential Mortgage Loans	7	37	63	16	18
Total Recoveries	532	605	414	270	473
Net Loans Recovered (Charged-off)	(4,870)	(1,941)	(864)	(830)	(491)
Additions to Allowance Charged to Expense	5,325	2,070	1,750	1,200	—
Balance at End of Period	\$ 16,278	\$ 15,823	\$ 15,694	\$ 14,808	\$ 14,438
Net Charge-offs (Recoveries) to Average Loans Outstanding	0.17%	0.08%	0.04%	0.04%	0.03%
Provision for Loan Losses to Average Loans Outstanding	0.18%	0.09%	0.09%	0.06%	0.00%
Allowance for Loan Losses to Total Loans at Year-end	0.53%	0.58%	0.73%	0.74%	0.92%

The following table indicates the breakdown of the allowance for loan losses for the periods indicated (dollars in thousands):

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Commercial and Industrial Loans and Leases	\$ 4,799	\$ 2,953	\$ 4,735	\$ 3,725	\$ 4,242
Commercial Real Estate Loans	4,692	5,291	4,591	5,452	6,342
Agricultural Loans	5,315	5,776	4,894	4,094	2,115
Home Equity and Consumer Loans	634	649	628	518	613
Residential Mortgage Loans	333	472	343	329	414
Unallocated	505	682	503	690	712
Total Allowance for Loan Losses	<u>\$ 16,278</u>	<u>\$ 15,823</u>	<u>\$ 15,694</u>	<u>\$ 14,808</u>	<u>\$ 14,438</u>

The Company's allowance for loan losses totaled \$16.3 million at December 31, 2019 compared to \$15.8 million at December 31, 2018 and \$15.7 million at December 31, 2017. The allowance for loan losses represented 0.53% of period-end loans at December 31, 2019 compared with 0.58% of period-end loans at December 31, 2018 and 0.73% at December 31, 2017. The decline in the allowance for loan losses as a percent of total loans during 2018 and 2019 was the result of the acquisition activity by the Company during 2018 and 2019. Under acquisition accounting treatment, loans acquired are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. The Company held a discount on acquired loans of \$20.4 million at December 31, 2019, \$19.5 million at December 31, 2018 and \$7.6 million at December 31, 2017. The Company's allowance for loan losses represented 0.73% of total non-acquired loans at year-end 2019 compared with 0.77% of total non-acquired loans at year-end 2018 and 0.83% at year-end 2017.

The Company realized net charge-offs of \$4,870,000, or 0.17% of average loans outstanding during 2019 compared with net charge-offs of \$1,941,000, or 0.08% of average loans outstanding during 2018 and \$864,000, or 0.04% of average loans during 2017.

Please see "RESULTS OF OPERATIONS - Provision for Loan Losses" and "CRITICAL ACCOUNTING POLICIES AND ESTIMATES - Allowance for Loan Losses" for additional information regarding the allowance.

NON-PERFORMING ASSETS

Non-performing assets consist of: (a) non-accrual loans; (b) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of deterioration in the financial condition of the borrower; (c) loans past due 90 days or more as to principal or interest; and, (d) other real estate owned. Loans are placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. Uncollected accrued interest is reversed against income at the time a loan is placed on non-accrual. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection. The following table presents an analysis of the Company's non-performing assets.

Non-performing Assets (dollars in thousands)	December 31,				
	2019	2018	2017	2016	2015
Non-accrual Loans	\$ 13,802	\$ 12,579	\$ 11,091	\$ 3,793	\$ 3,143
Past Due Loans (90 days or more)	190	633	719	2	143
Total Non-performing Loans	13,992	13,212	11,810	3,795	3,286
Other Real Estate	425	286	54	242	169
Total Non-performing Assets	<u>\$ 14,417</u>	<u>\$ 13,498</u>	<u>\$ 11,864</u>	<u>\$ 4,037</u>	<u>\$ 3,455</u>
Restructured Loans	\$ 116	\$ 121	\$ 149	\$ 28	\$ 2,203
Non-performing Loans to Total Loans	0.45%	0.48%	0.55%	0.19%	0.21%
Allowance for Loan Losses to Non-performing Loans	116.34%	119.76%	132.89%	390.20%	439.38%

Non-performing assets totaled \$14.4 million, or 0.33% of total assets at December 31, 2019 compared to \$13.5 million, or 0.34% of total assets at December 31, 2018 and compared to \$11.9 million, or 0.38% of total assets at December 31, 2017. Non-performing loans totaled \$14.0 million, or 0.45% of total loans at December 31, 2019 compared with \$13.2 million, or 0.48% of total loans at December 31, 2018 and \$11.9 million, or 0.55% of total loans at December 31, 2017. The increases in non-performing assets and non-performing loans at both year-end 2019 and year-end 2018 compared to prior periods was primarily attributable to the merger and acquisition transactions during 2018 and 2019.

The following tables present an analysis of the Company's non-accrual loans and loans past due 90 days or more and still accruing.

Non-Accrual Loans (dollars in thousands)	December 31,				
	2019	2018	2017	2016	2015
Commercial and Industrial Loans and Leases	\$ 4,940	\$ 2,430	\$ 4,753	\$ 86	\$ 134
Commercial Real Estate Loans	3,433	6,833	4,618	1,408	2,047
Agricultural Loans	2,739	1,449	748	792	—
Home Equity Loans	79	88	199	73	204
Consumer Loans	115	162	286	85	90
Residential Mortgage Loans	2,496	1,617	487	1,349	668
Total	<u>\$ 13,802</u>	<u>\$ 12,579</u>	<u>\$ 11,091</u>	<u>\$ 3,793</u>	<u>\$ 3,143</u>

Loans Past Due 90 Days or More & Still Accruing (dollars in thousands)	December 31,				
	2019	2018	2017	2016	2015
Commercial and Industrial Loans and Leases	\$ 190	\$ —	\$ —	\$ 2	\$ 96
Commercial Real Estate Loans	—	364	471	—	47
Agricultural Loans	—	269	248	—	—
Home Equity Loans	—	—	—	—	—
Consumer Loans	—	—	—	—	—
Residential Mortgage Loans	—	—	—	—	—
Total	<u>\$ 190</u>	<u>\$ 633</u>	<u>\$ 719</u>	<u>\$ 2</u>	<u>\$ 143</u>

The Company purchases individual loans and groups of loans. Purchased loans that show evidence of credit deterioration since origination are recorded at the amount paid (or allocated fair value in a purchase business combination), such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

Purchased loans that indicated evidence of credit deterioration since origination at the time of acquisition by the Company did not have a material adverse impact on the Company's key credit metrics during 2019 or 2018. The key credit metrics the Company measures generally include non-performing loans, past due loans, and adversely classified loans.

Loan impairment is reported when full repayment under the terms of the loan is not expected. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible. The amount of loans individually evaluated for impairment, including purchase credit impaired loans, totaled \$11.7 million and \$13.6 million at December 31, 2019 and 2018, respectively. For additional detail on impaired loans, see Note 4 to the Company's consolidated financial statements included in Item 8 of this Report.

Interest income recognized on non-performing loans for 2019 was \$142,000. The gross interest income that would have been recognized in 2019 on non-performing loans if the loans had been current in accordance with their original terms was \$879,000. Loans are typically placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more, unless the loan is well secured and in the process of collection.

LIQUIDITY AND INTEREST RATE RISK MANAGEMENT

Liquidity is a measure of the ability of the Company's subsidiary bank to fund new loan demand, existing loan commitments and deposit withdrawals. The purpose of liquidity management is to match sources of funds with anticipated customer borrowings and withdrawals and other obligations to ensure a dependable funding base, without unduly penalizing earnings. Failure to properly manage liquidity requirements can result in the need to satisfy customer withdrawals and other obligations on less than desirable terms. The liquidity of the parent company is dependent upon the receipt of dividends from its bank subsidiary, which are subject to certain regulatory limitations explained in Note 8 (Shareholders' Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report. The subsidiary bank's source of funding is predominately core deposits, time deposits in excess

of \$100,000 and brokered certificates of deposit, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank and Federal Reserve Bank.

Interest rate risk is the exposure of the Company's financial condition to adverse changes in market interest rates. In an effort to estimate the impact of sustained interest rate movements to the Company's earnings, the Company monitors interest rate risk through computer-assisted simulation modeling of its net interest income. The Company's simulation modeling monitors the potential impact to net interest income under various interest rate scenarios. The Company's objective is to actively manage its asset/liability position within a one-year interval and to limit the risk in any of the interest rate scenarios to a reasonable level of tax-equivalent net interest income within that interval. The Company's Asset/Liability Committee monitors compliance within established guidelines of the Funds Management Policy. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk section for further discussion regarding interest rate risk.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than stand-by letters of credit as disclosed in Note 14 (Commitments and Off-balance Sheet Items) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee and Boards of Directors of the parent company and its subsidiary bank. Primary market risks which impact the Company's operations are liquidity risk and interest rate risk.

The liquidity of the parent company is dependent upon the receipt of dividends from its subsidiary bank, which is subject to certain regulatory limitations. The Bank's source of funding is predominately core deposits, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank.

The Company monitors interest rate risk by the use of computer simulation modeling to estimate the potential impact on its net interest income under various interest rate scenarios, and by estimating its static interest rate sensitivity position. Another method by which the Company's interest rate risk position can be estimated is by computing estimated changes in its net portfolio value ("NPV"). This method estimates interest rate risk exposure from movements in interest rates by using interest rate sensitivity analysis to determine the change in the NPV of discounted cash flows from assets and liabilities. NPV represents the market value of portfolio equity and is equal to the estimated market value of assets minus the estimated market value of liabilities.

Computations for measuring both net interest income and NPV are based on a number of assumptions, including the relative levels of market interest rates and prepayments in mortgage loans and certain types of investments. These computations do not contemplate any actions management may undertake in response to changes in interest rates, and should not be relied upon as indicative of actual results. In addition, certain shortcomings are inherent in the method of computing both net interest income and NPV. Should interest rates remain or decrease below current levels, the proportion of adjustable rate loans could decrease in future periods due to refinancing activity. In the event of an interest rate change, prepayment levels would likely be different from those assumed in the modeling. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

The Company from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Company's risk management strategy.

The table below provides an assessment of the risk to net interest income over the next 12 months in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of December 31, 2019 - Net Interest Income

Changes in Rates	Net Interest Income	
	Amount	% Change
+2%	\$ 149,380	(1.07)%
+1%	147,770	(2.14)
Base	151,003	—
-1%	149,977	(0.68)
-2%	144,290	(4.45)

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of December 31, 2019 and instantaneous parallel changes in interest rates. The Company also monitors interest rate risk under other scenarios including a more gradual movement in market interest rates. This type of scenario can at times produce different modeling results in measuring interest rate risk sensitivity.

The table below provides an assessment of the risk to NPV in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of December 31, 2019 - Net Portfolio Value

Changes in Rates	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
	Amount	% Change	NPV Ratio	Change
+2%	\$ 517,023	(3.23)%	12.70%	14 b.p.
+1%	530,601	(0.69)	12.74	18 b.p.
Base	534,289	—	12.56	—
-1%	510,601	(4.43)	11.80	(76) b.p.
-2%	435,726	(18.45)	9.96	(260) b.p.

The above discussion, and the portions of MANAGEMENT’S DISCUSSION AND ANALYSIS in Item 7 of this Report that are referenced in the above discussion contain statements relating to future results of the Company that are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, simulation of the impact on net interest income from changes in interest rates. Actual results may differ materially from those expressed or implied therein as a result of certain risks and uncertainties, including those risks and uncertainties expressed above, those that are described in MANAGEMENT’S DISCUSSION AND ANALYSIS in Item 7 of this Report, and those that are described in Item 1 of this Report, “Business,” under the caption “Forward-Looking Statements and Associated Risks,” which discussions are incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of
German American Bancorp, Inc.
Jasper, Indiana

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of German American Bancorp, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As described in Notes 1 and 4 to the consolidated financial statements, the Company's allowance for loan losses model is composed of specific and general components. The specific component relates to loans that have been identified as impaired and are evaluated for collectability based on the present value of estimated cash flows or discounted collateral value. To estimate the general component, management uses historical loss ratios by portfolio segment and adjusts the calculated expected loss for economic conditions to determine the appropriate level of allowance for non-impaired loans. For commercial and agricultural loans graded special mention and substandard, management uses a migration analysis technique to calculate the allocation rates.

The audit of the estimate of the allowance for loan losses was identified by us as a critical audit matter because of the necessary judgments applied by us to evaluate the significant subjective and complex judgments made by management. The migration analysis techniques used to calculate allocation rates and the qualitative factors required especially challenging, subjective, and/or complex auditor judgment to evaluate the following significant judgements related to:

- The migration analysis factors are calculated using a transition matrix to determine the likelihood of a customer's asset quality rating migrating from its current rating to any other rating. The calculation relies on the accuracy of the loan risk rating at a point in time as well as the accuracy of the movement of loans to the correct risk rating category.
- For all loan types, loss rates used are adjusted for qualitative factors. The selection of qualitative factors and the magnitude of such adjustments is based on management's judgments regarding factors which impact asset quality.
- Completeness and accuracy of data used in the migration analysis calculation is especially challenging given the volume of loan data used in the calculation.

The primary procedures performed to address this critical audit matter included:

- Testing the effectiveness of controls over the Company's asset quality rating; controls over the preparation and review of the allowance for loan loss calculation, including data used as the basis for adjustments related to the qualitative factors, completeness and accuracy of loan data used in the computations, the development and reasonableness of qualitative factors and mathematical accuracy of the overall calculation;
- Substantively testing the accuracy of both the asset quality ratings as well as testing the accuracy of the transition matrix
- Substantively testing management's process for developing the qualitative factors and assessing relevance of data used to develop factors, including evaluating management's judgments and assumptions for reasonableness.
- Substantively testing the mathematical accuracy of the migration analysis calculations including the completeness and accuracy of loan data used in the model.

Accounting for Acquisitions

As more fully described in Note 18 during 2019, the Company completed the acquisition of Citizens First Corporation for stock and cash consideration totaling approximately \$65.6 million.

We identified the evaluation of the Company's acquisition of Citizens First Corporation as a critical audit matter because it involved especially subjective auditor judgment and specialized skills when evaluating management's judgments with respect to the valuation assertion for loans and core deposit intangibles. The primary procedures performed to address this critical audit matter included:

- Testing the effectiveness of management's review controls over the accuracy of data and appropriateness of assumptions used in the Company engaged specialist's valuation report for acquired loans and core deposits.

Report of Independent Registered Public Accounting Firm

- Performing analytic procedures comparing the core deposit intangible value to market data in similar acquisitions.
- Substantively testing the reasonableness of the Company's significant assumptions used in valuing core deposits, including discount rates, estimated useful lives, attrition rates and the expected rate of return.
- Substantively testing the reasonableness of the Company's significant assumptions used in valuing acquired loans, including discount rates, prepayment rates and credit loss assumptions, with the use of an auditor employed specialist.
- Substantively testing the mathematical accuracy of the core deposit intangible and acquired loan valuation calculations.

/s/ Crowe LLP

Crowe LLP

We have served as the Company's auditor since 1977.

Indianapolis, Indiana

March 2, 2020

Consolidated Balance Sheets
Dollars in thousands, except per share data

	December 31,	
	2019	2018
ASSETS		
Cash and Due from Banks	\$ 59,971	\$ 64,549
Federal Funds Sold and Other Short-term Investments	43,913	32,001
Cash and Cash Equivalents	103,884	96,550
Interest-bearing Time Deposits with Banks	1,985	250
Securities Available-for-Sale, at Fair Value	854,825	812,611
Other Investments	353	353
Loans Held-for-Sale, at Fair Value	17,713	4,263
Loans	3,081,973	2,731,741
Less: Unearned Income	(4,882)	(3,682)
Allowance for Loan Losses	(16,278)	(15,823)
Loans, Net	3,060,813	2,712,236
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,968	13,048
Premises, Furniture and Equipment, Net	96,651	80,627
Other Real Estate	425	286
Goodwill	121,306	103,681
Intangible Assets	12,656	9,964
Company Owned Life Insurance	68,883	59,896
Accrued Interest Receivable and Other Assets	44,210	35,325
TOTAL ASSETS	\$ 4,397,672	\$ 3,929,090
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 832,985	\$ 715,972
Interest-bearing Demand, Savings, and Money Market Accounts	1,965,640	1,768,177
Time Deposits	631,396	588,483
Total Deposits	3,430,021	3,072,632
FHLB Advances and Other Borrowings	349,686	376,409
Accrued Interest Payable and Other Liabilities	44,145	21,409
TOTAL LIABILITIES	3,823,852	3,470,450
Commitments and Contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Common Stock, no par value, \$1 stated value; 45,000,000 shares authorized	26,671	24,967
Additional Paid-in Capital	278,954	229,347
Retained Earnings	253,090	211,424
Accumulated Other Comprehensive Income (Loss)	15,105	(7,098)
TOTAL SHAREHOLDERS' EQUITY	573,820	458,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,397,672	\$ 3,929,090
End of period shares issued and outstanding	26,671,368	24,967,458

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income
Dollars in thousands, except per share data

	Years Ended December 31,		
	2019	2018	2017
INTEREST INCOME			
Interest and Fees on Loans	\$ 152,481	\$ 112,084	\$ 91,745
Interest on Federal Funds Sold and Other Short-term Investments	522	308	134
Interest and Dividends on Securities:			
Taxable	13,910	12,398	10,898
Non-taxable	9,561	8,959	8,253
TOTAL INTEREST INCOME	176,474	133,749	111,030
INTEREST EXPENSE			
Interest on Deposits	23,805	13,625	7,094
Interest on FHLB Advances and Other Borrowings	7,444	5,514	4,027
TOTAL INTEREST EXPENSE	31,249	19,139	11,121
NET INTEREST INCOME	145,225	114,610	99,909
Provision for Loan Losses	5,325	2,070	1,750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	139,900	112,540	98,159
NON-INTEREST INCOME			
Trust and Investment Product Fees	7,278	6,680	5,272
Service Charges on Deposit Accounts	8,718	7,044	6,178
Insurance Revenues	8,940	8,330	7,979
Company Owned Life Insurance	2,005	1,243	1,341
Interchange Fee Income	9,450	7,278	4,567
Other Operating Income	3,229	2,785	2,641
Net Gains on Sales of Loans	4,633	3,004	3,280
Net Gains on Securities	1,248	706	596
TOTAL NON-INTEREST INCOME	45,501	37,070	31,854
NON-INTEREST EXPENSE			
Salaries and Employee Benefits	63,885	51,306	46,642
Occupancy Expense	9,988	7,735	6,609
Furniture and Equipment Expense	3,788	3,142	2,621
FDIC Premiums	533	1,033	954
Data Processing Fees	7,927	6,942	4,276
Professional Fees	4,674	5,362	2,817
Advertising and Promotion	4,230	3,492	3,543
Intangible Amortization	3,721	1,752	942
Other Operating Expenses	15,416	12,789	9,399
TOTAL NON-INTEREST EXPENSE	114,162	93,553	77,803
Income before Income Taxes	71,239	56,057	52,210
Income Tax Expense	12,017	9,528	11,534
NET INCOME	\$ 59,222	\$ 46,529	\$ 40,676
Basic Earnings per Share	\$ 2.29	\$ 1.99	\$ 1.77
Diluted Earnings per Share	\$ 2.29	\$ 1.99	\$ 1.77
Dividends per Share	\$ 0.68	\$ 0.60	\$ 0.52

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income
Dollars in thousands, except per share data

	Years Ended December 31,		
	2019	2018	2017
NET INCOME	\$ 59,222	\$ 46,529	\$ 40,676
Other Comprehensive Income (Loss):			
Unrealized Gains (Losses) on Securities:			
Unrealized Holding Gain (Loss) Arising During the Period	29,866	(4,936)	7,364
Reclassification Adjustment for Gains Included in Net Income	(1,248)	(706)	(596)
Tax Effect	(6,186)	1,218	(2,377)
Net of Tax	22,432	(4,424)	4,391
Postretirement Benefit Obligation:			
Net (Loss) Arising During the Period	(310)	(73)	(226)
Reclassification Adjustment for Amortization of Prior Service Cost and Net Loss Included in Net Periodic Pension Cost	37	32	8
Tax Effect	44	(13)	80
Net of Tax	(229)	(54)	(138)
Total Other Comprehensive Income (Loss)	22,203	(4,478)	4,253
COMPREHENSIVE INCOME	\$ 81,425	\$ 42,051	\$ 44,929

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Dollars in thousands, except per share data

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balances, January 1, 2017	15,261,431	\$ 15,261	\$ 171,744	\$ 149,666	\$ (6,404)	\$ 330,267
Net Income				40,676		40,676
Other Comprehensive Income (Loss)					4,253	4,253
Reclass Upon Adoption of ASU 2018-02 (See Note 1 - Summary of Significant Accounting Policies)				469	(469)	—
Cash Dividends (\$0.52 per share)				(11,842)		(11,842)
Issuance of Common Stock for:						
3-for-2 Stock Split	7,642,726	7,643	(7,672)			(29)
Restricted Share Grants	30,246	30	1,216			1,246
Balances, December 31, 2017	22,934,403	22,934	165,288	178,969	(2,620)	364,571
Net Income				46,529		46,529
Other Comprehensive Income (Loss)					(4,478)	(4,478)
Cash Dividends (\$0.60 per share)				(14,074)		(14,074)
Issuance of Common Stock for:						
Acquisition of First Security Bank	1,987,698	1,988	62,749			64,737
Restricted Share Grants	45,357	45	1,310			1,355
Balances, December 31, 2018	24,967,458	24,967	229,347	211,424	(7,098)	458,640
Net Income				59,222		59,222
Other Comprehensive Income (Loss)					22,203	22,203
Cash Dividends (\$0.68 per share)				(17,556)		(17,556)
Issuance of Common Stock for:						
Acquisition of Citizens First Bank	1,663,954	1,664	48,360			50,024
Restricted Share Grants	39,956	40	1,247			1,287
Balances, December 31, 2019	26,671,368	\$ 26,671	\$ 278,954	\$ 253,090	\$ 15,105	\$ 573,820

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Dollars in thousands

	Years Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 59,222	\$ 46,529	\$ 40,676
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:			
Net Amortization on Securities	3,862	3,550	3,543
Depreciation and Amortization	8,630	6,184	4,687
Loans Originated for Sale	(198,326)	(131,916)	(122,518)
Proceeds from Sales of Loans Held-for-Sale	189,875	137,417	134,316
Provision for Loan Losses	5,325	2,070	1,750
Gain on Sale of Loans, net	(4,633)	(3,004)	(3,280)
Gain on Securities, net	(1,248)	(706)	(596)
Gain on Sales of Other Real Estate and Repossessed Assets	200	(41)	(17)
Loss (Gain) on Disposition and Donation of Premises and Equipment	111	(36)	870
Loss (Gain) on Disposition of Land	(352)	44	—
Post Retirement Medical Benefit	(228)	(55)	(34)
Increase in Cash Surrender Value of Company Owned Life Insurance	(1,407)	(1,141)	(1,370)
Equity Based Compensation	1,287	1,355	1,246
Excess Tax Benefit from Restricted Share Grant	25	32	240
Change in Assets and Liabilities:			
Interest Receivable and Other Assets	(1,602)	2,211	(4,528)
Interest Payable and Other Liabilities	4,488	(162)	(110)
Net Cash from Operating Activities	65,229	62,331	54,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Maturity of Other Short-term Investments	496	—	—
Proceeds from Maturities of Securities Available-for-Sale	114,669	78,714	79,955
Proceeds from Sales of Securities Available-for-Sale	82,601	91,013	49,459
Purchase of Securities Available-for-Sale	(169,640)	(140,604)	(156,802)
Proceeds from Redemption of Federal Home Loan Bank Stock	1,145	2,607	—
Purchase of Loans	(2,051)	(1,209)	(5,547)
Proceeds from Sales of Loans	—	6,000	1,106
Loans Made to Customers, net of Payments Received	3,925	(87,127)	(149,336)
Proceeds from Sales of Other Real Estate	369	662	1,435
Property and Equipment Expenditures	(9,374)	(15,186)	(11,183)
Proceeds from Sales of Property and Equipment	—	40	6
Proceeds from Sale of Land	1,761	393	—
Proceeds from Life Insurance	1,216	765	1,627
Acquisition of First Security, Inc.	—	(17,566)	—
Cash from Acquisition of Bank Branches	—	42,700	—
Acquisition of Citizens First Corporation	5,545	—	—
Net Cash from Investing Activities	30,662	(38,798)	(189,280)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in Deposits	(13,007)	(11,112)	134,737
Change in Short-term Borrowings	(82,037)	42,999	(4,054)
Advances in Long-term Debt	89,214	25,000	75,000
Repayments of Long-term Debt	(65,171)	(40,155)	(53,864)
Issuance (Retirement) of Common Stock	—	—	(29)
Dividends Paid	(17,556)	(14,074)	(11,842)
Net Cash from Financing Activities	(88,557)	2,658	139,948
Net Change in Cash and Cash Equivalents	7,334	26,191	5,543
Cash and Cash Equivalents at Beginning of Year	96,550	70,359	64,816
Cash and Cash Equivalents at End of Year	\$ 103,884	\$ 96,550	\$ 70,359
Cash Paid During the Year for			
Interest	\$ 30,765	\$ 18,239	\$ 10,852
Income Taxes	7,977	5,920	12,462
Supplemental Non Cash Disclosures (See Note 18 for Business Combinations)			
Loans Transferred to Other Real Estate	\$ 708	\$ 398	\$ 1,230
Reclassification of Land and Buildings to Other Assets	5,712	850	330
Right of Use Asset Obtained in Exchange for Lease Liabilities	9,034	—	—

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 1 – Summary of Significant Accounting Policies**Description of Business and Basis of Presentation**

The operations of German American Bancorp, Inc. (the "Company") are primarily comprised of three business segments: core banking, trust and investment advisory services, and insurance operations. The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles. The more significant policies are described below. The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all material intercompany accounts and transactions. Certain prior year amounts have been reclassified to conform with current classifications. Reclassifications had no impact on shareholders' equity or net income. To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Securities

Debt securities classified as available-for-sale are securities that the Company intends to hold for an indefinite period of time, but not necessarily until maturity. These include securities that management may use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, or similar reasons. Securities classified as available-for-sale are reported at fair value with unrealized gains or losses included as a separate component of equity, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on trade date and determined using the specific identification method.

On January 1, 2018, the Company adopted the new accounting for Financial Instruments, which requires equity investments with readily determinable values (except those accounted for under equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Equity securities that do not have readily determinable fair values are carried at historical cost and evaluated for impairment on a periodic basis. The adoption of this guidance impacted one security and resulted in no adjustment to beginning retained earnings and no impact to beginning other comprehensive income. Upon adoption of the guidance, this equity security is no longer classified as available for sale. For additional information on this security, see Note 2 - Securities.

Management evaluates debt securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Fair value is determined based on collateral value and prevailing market prices for loans with similar characteristics. Net unrealized gains or losses are recorded through earnings.

Mortgage loans held for sale are generally sold on a servicing released basis. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans

Loans that management originates and has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on unpaid principal balance and includes amortization of net deferred loan fees and costs over the loan term without anticipating prepayments.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 1 – Summary of Significant Accounting Policies (continued)

All classes of loans are generally placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. Uncollected accrued interest for each class of loans is reversed against income at the time a loan is placed on non-accrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All classes of loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection.

Certain Purchased Loans

The Company purchases individual loans and groups of loans. Purchased loans that show evidence of credit deterioration since origination are recorded at the amount paid (or allocated fair value in a purchase business combination), such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses. Such purchased loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each purchased loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Loan impairment is reported when full repayment under the terms of the loan is not expected. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral net of disposition costs. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and risk classifications and is based on the actual loss history experienced by the Company over a 20 quarter average. The Company separately assigns allocations for substandard and special mention commercial and agricultural credits as well as other categories of loans based on migration analysis techniques. The migration analysis factors are calculated using a transition matrix to determine the likelihood of a customer's asset quality rating migrating from its current rating to any other rating. This actual loss experience is supplemented with other external and internal factors based on the risks present for each portfolio segment. These factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Loans and Retail Loans. Commercial Loans have been classified according to the following risk

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 1 – Summary of Significant Accounting Policies (continued)

characteristics: Commercial and Industrial Loans and Leases, Commercial Real Estate, and Agricultural Loans. Commercial and Industrial loans are primarily based on the cash flows of the business operations and secured by assets being financed and other assets such as accounts receivable and inventory. Commercial Real Estate Loans and Agricultural Loans are primarily based on cash flow of the borrower and their business and further secured by real estate. All types of commercial and agricultural (real estate secured and non-real estate) may also come with personal guarantees of the borrowers and business owners. Retail Loans have been classified according to the following risk characteristics: Home Equity Loans, Consumer Loans and Residential Mortgage Loans. Retail loans are generally dependent on personal income of the customer, and repayment is dependent on borrower's personal cash flow and employment status which can be affected by general economic conditions. Additionally, collateral values may fluctuate based on the impact of economic conditions on residential real estate values and other consumer type assets such as automobiles.

Loans or portions of loans shall be charged off when there is a distinct probability of loss identified. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are insufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the allowance for loan loss.

Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts when available or, alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Through the acquisition of River Valley Bancorp in 2016, the Company acquired a portfolio of servicing rights on mortgage loans. The Company also acquired a portfolio of servicing rights on mortgage loans through the acquisition of five branch locations of First Financial Bancorp (formerly branch locations of Mainsource Financial Group, Inc. prior to its merger with First Financial Bancorp on April 1, 2018). The fair value of mortgage servicing rights were \$663 and \$995 at December 31, 2019 and 2018, respectively.

On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

Servicing fee income is reported on the income statement as other operating income. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing right is netted against loan servicing fee income.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB of Indianapolis. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises, Furniture and Equipment

Land is carried at cost. Premises, furniture, and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging generally from 10 to 40 years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging generally from 3 to 10 years.

Other Real Estate

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of commercial/residential real estate property collateralizing a commercial/consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through the completion of a deed in lieu of foreclosure or through a similar legal agreement. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 1 – Summary of Significant Accounting Policies (continued)**Goodwill and Other Intangible Assets**

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill arising from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets. They are initially measured at fair value and then are amortized over their estimated useful lives, which range from 6 to 10 years.

Company Owned Life Insurance

The Company has purchased life insurance policies on certain directors and executives. This life insurance is recorded at its cash surrender value or the amount that can be realized, which considers any adjustments or changes that are probable at settlement.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe currently that there are any such matters that will have a material impact on the financial statements.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Restrictions on Cash

At December 31, 2019 and 2018, respectively, the Company was required to have \$24,560 and \$15,170 on deposit with the Federal Reserve, or as cash on hand.

Long-term Assets

Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Stock Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and changes in unrecognized amounts in pension and other postretirement benefits, which are also recognized as a separate component of equity.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 1 – Summary of Significant Accounting Policies (continued)

greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Retirement Plans

Pension expense under the suspended defined benefit plan is the net of interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Earnings Per Share

Earnings per share are based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share show the potential dilutive effect of additional common shares issuable under the Company’s stock based compensation plans. Earnings per share are retroactively restated for stock splits and stock dividends.

Cash Flow Reporting

The Company reports net cash flows for customer loan transactions, deposit transactions, deposits made with other financial institutions and short-term borrowings. Cash and cash equivalents are defined to include cash on hand, demand deposits in other institutions and Federal Funds Sold.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Recently Adopted Accounting Guidance

In February 2016, the FASB amended existing guidance (ASU No. 2016-02, Leases (Topic 842)) that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged.

The Company adopted the amendments to Topic 842 on January 1, 2019, utilizing the modified retrospective approach and the transition option issued under ASU 2018-11, Leases (Topic 842) Targeted Improvements. The Company elected to apply the package of practical expedients permitting entities to not reassess (1) expired or existing contracts that may contain leases; (2) lease classification of expired or existing leases; or (3) initial direct costs for existing leases as well as the practical expedient for land easements. The Company also elected certain optional relief for accounting policy elections under ASU 2016-02 (1) to not separate the lease and non-lease components and instead use them for a single lease component for leases related to office equipment and (2) the option to not recognize right-of-use assets and liabilities that arise from short-term leases.

Upon adoption of this guidance on January 1, 2019, the Company recorded a right-of-use asset and corresponding lease liability of \$9,034 on the consolidated balance sheet. No cumulative effect adjustment to retained earnings resulted from the adoption of this guidance. For additional details on this recently adopted accounting guidance, see Note 13 - Leases.

In February 2018, the FASB issued new guidance (ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)) to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This amendment was effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company early adopted this guidance in 2017 and it did not have a material impact on the Company's operating results or financial condition.

In March 2017, the FASB amended existing guidance (ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)) to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period has been shortened to the earliest call date. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. These amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15,

NOTE 1 – Summary of Significant Accounting Policies (continued)

2018. The Company early adopted this guidance in 2017 and it did not have a material impact on the Company's operating results or financial condition.

Accounting Guidance Issued But Not Yet Adopted

In June 2016, the FASB issued guidance (ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326)) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard will be effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period.

The transition to the new standard will be applied as follows:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

As previously disclosed, the Company formed a cross-functional committee that assessed data and system needs, selected a vendor to provide modeling needs, and implemented new software. The Company has completed parallel runs comparing its existing allowance for loan loss model with the CECL model and determined eight loan segments for which models have been developed. The Company has also determined the significant qualitative factors that will be utilized in the CECL model, but continue to assess their impact on the model.

As of year end, the Company has not completed finalizing the results of its CECL estimate. Model validation testing is currently being performed and internal controls over financial reporting specifically related to CECL are in final design stage and are currently being evaluated.

The Company expects to recognize a one-time cumulative adjustment to the allowance for credit losses in the first quarter of 2020. Although the Company does not have the approval from its internal governing committee, the Company is estimating an increase to its allowance for loan losses of approximately \$12 million to \$20 million upon adoption. The increase is primarily related to the Company's acquired loan portfolio. Under the current accounting guidance, any remaining unamortized loan discount on an individual loan can be used to offset a charge-off for that loan, so the allowance for loan losses needed for the acquired loans is reduced by the remaining loan discounts. The new accounting under this ASU removes the ability to offset a charge-off against the remaining loan discount and requires an allowance for credit losses to be recognized in addition to the loan discount. This estimate and the ongoing impact of adopting this ASU are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our loans and securities portfolios, and other management judgements. The transition adjustment to record the allowance for credit losses, which remains subject to further review and analysis by the Company's management team, may fall outside of the estimated range based on material changes in these factors.

Federal banking regulators have approved rules that provide banking organizations the option to phase in the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard over a three-year period. The Company anticipates adopting the capital transition relief over the permissible three-year period.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 2 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
Obligations of State and Political Subdivisions	\$ 307,943	\$ 16,366	\$ (9)	\$ 324,300
MBS/CMO	526,907	5,414	(1,796)	530,525
Total	<u>\$ 834,850</u>	<u>\$ 21,780</u>	<u>\$ (1,805)</u>	<u>\$ 854,825</u>
2018				
Obligations of State and Political Subdivisions	\$ 291,449	\$ 4,407	\$ (1,323)	\$ 294,533
MBS/CMO	529,805	1,029	(12,756)	518,078
Total	<u>\$ 821,254</u>	<u>\$ 5,436</u>	<u>\$ (14,079)</u>	<u>\$ 812,611</u>

All mortgage-backed securities in the above table (identified above and throughout this Note 2 as "MBS/CMO") are residential and multi-family mortgage-backed securities and guaranteed by government sponsored entities.

The amortized cost and fair value of Securities at December 31, 2019 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed securities are not due at a single maturity date and are shown separately.

	Amortized Cost	Fair Value
Securities Available-for-Sale:		
Due in one year or less	\$ 2,512	\$ 2,518
Due after one year through five years	19,642	20,070
Due after five years through ten years	68,972	72,546
Due after ten years	216,817	229,166
MBS/CMO	526,907	530,525
Total	<u>\$ 834,850</u>	<u>\$ 854,825</u>

	2019	2018	2017
Proceeds from the Sales of Securities are summarized below:			
	Available-for-Sale	Available-for-Sale	Available-for-Sale
Proceeds from Sales	\$ 82,601	\$ 91,013	\$ 49,459
Gross Gains on Sales	1,248	706	596
Income Taxes on Gross Gains	262	148	209

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$245,664 and \$211,239 as of December 31, 2019 and 2018, respectively.

Below is a summary of securities with unrealized losses as of year-end 2019 and 2018, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2019						
Obligations of State and Political Subdivisions	\$ 4,631	\$ (9)	\$ —	\$ —	\$ 4,631	\$ (9)
MBS/CMO	89,267	(241)	155,989	(1,555)	245,256	(1,796)
Total	<u>\$ 93,898</u>	<u>\$ (250)</u>	<u>\$ 155,989</u>	<u>\$ (1,555)</u>	<u>\$ 249,887</u>	<u>\$ (1,805)</u>

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 2 – Securities (continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018						
Obligations of State and Political Subdivisions	\$ 37,936	\$ (286)	\$ 49,071	\$ (1,037)	\$ 87,007	\$ (1,323)
MBS/CMO	56,386	(601)	356,218	(12,155)	412,604	(12,756)
Total	<u>\$ 94,322</u>	<u>\$ (887)</u>	<u>\$ 405,289</u>	<u>\$ (13,192)</u>	<u>\$ 499,611</u>	<u>\$ (14,079)</u>

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company doesn't intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates; therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities and collateralized mortgage obligations (MBS/CMO) in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

The Company's equity securities are listed as Other Investments on the Consolidated Balance Sheets and consist of one non-controlling investment in a single banking organization at December 31, 2019 and 2018. The original investment totaled \$1,350 and other-than-temporary impairment was previously recorded totaling \$997. The Company's equity securities are considered not to have readily determinable fair value and are carried at cost and evaluated for impairment. At December 31, 2019, there was no additional impairment recognized through earnings.

NOTE 3 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$102.4 million and \$85.6 million at December 31, 2019 and 2018, respectively. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Company's exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Company minimizes credit risk through credit approvals, limits, and monitoring procedures.

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of:

	December 31, 2019		December 31, 2018	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$ 102,351	\$ 2,607	\$ 85,587	\$ 1,713
Included in Other Liabilities:				
Interest Rate Swaps	\$ 102,351	\$ 2,829	\$ 85,587	\$ 1,734

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 3 – Derivatives (continued)

The following table presents the effect of derivative instruments on the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Interest Rate Swaps:			
Included in Other Income	\$ 429	\$ 48	\$ 478

NOTE 4 – Loans

Loans were comprised of the following classifications at December 31:

	2019	2018
Commercial:		
Commercial and Industrial Loans and Leases	\$ 589,758	\$ 543,761
Commercial Real Estate Loans	1,495,862	1,208,646
Agricultural Loans	384,526	365,208
Retail:		
Home Equity Loans	225,755	207,987
Consumer Loans	81,217	77,547
Residential Mortgage Loans	304,855	328,592
Subtotal	3,081,973	2,731,741
Less: Unearned Income	(4,882)	(3,682)
Allowance for Loan Losses	(16,278)	(15,823)
Loans, net	<u>\$ 3,060,813</u>	<u>\$ 2,712,236</u>

As further described in Note 18, during 2019 the Company acquired loans at fair value as part of a business combination. The table below summarizes the loans acquired in the current year.

	Acquired Loan Balance	Fair Value Discounts	Fair Value
Bank Acquisition	\$ 365,593	\$ (8,623)	\$ 356,970

The table below summarizes the remaining carrying amount of acquired loans included in the December 31, 2019 table above.

	Loan Balance at December 31, 2019	Fair Value Discount at December 31, 2019
Bank Acquisition	\$ 326,771	\$ (6,509)

The following tables present the activity in the allowance for loan losses by portfolio class for the years ended December 31, 2019, 2018, and 2017:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
December 31, 2019								
Beginning Balance	\$ 2,953	\$ 5,291	\$ 5,776	\$ 229	\$ 420	\$ 472	\$ 682	\$ 15,823
Provision for Loan Losses	5,600	(308)	(461)	(27)	727	(29)	(177)	5,325
Recoveries	56	29	—	8	432	7	—	532
Loans Charged-off	(3,810)	(320)	—	(10)	(1,145)	(117)	—	(5,402)
Ending Balance	<u>\$ 4,799</u>	<u>\$ 4,692</u>	<u>\$ 5,315</u>	<u>\$ 200</u>	<u>\$ 434</u>	<u>\$ 333</u>	<u>\$ 505</u>	<u>\$ 16,278</u>

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
December 31, 2018								
Beginning Balance	\$ 4,735	\$ 4,591	\$ 4,894	\$ 330	\$ 298	\$ 343	\$ 503	\$ 15,694
Provision for Loan Losses	(423)	729	862	(52)	608	167	179	2,070
Recoveries	141	20	20	12	375	37	—	605
Loans Charged-off	(1,500)	(49)	—	(61)	(861)	(75)	—	(2,546)
Ending Balance	<u>\$ 2,953</u>	<u>\$ 5,291</u>	<u>\$ 5,776</u>	<u>\$ 229</u>	<u>\$ 420</u>	<u>\$ 472</u>	<u>\$ 682</u>	<u>\$ 15,823</u>

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
December 31, 2017								
Beginning Balance	\$ 3,725	\$ 5,452	\$ 4,094	\$ 283	\$ 235	\$ 329	\$ 690	\$ 14,808
Provision for Loan Losses	1,147	(689)	840	78	517	44	(187)	1,750
Recoveries	14	48	9	8	272	63	—	414
Loans Charged-off	(151)	(220)	(49)	(39)	(726)	(93)	—	(1,278)
Ending Balance	<u>\$ 4,735</u>	<u>\$ 4,591</u>	<u>\$ 4,894</u>	<u>\$ 330</u>	<u>\$ 298</u>	<u>\$ 343</u>	<u>\$ 503</u>	<u>\$ 15,694</u>

In determining the adequacy of the allowance for loan loss, general allocations are made for pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends.

Loan impairment is reported when full repayment under the terms of the loan is not expected. This methodology is used for all loans, including loans acquired with deteriorated credit quality if such loans perform worse than what was expected at the time of acquisition. For purchased loans, the assessment is made at the time of acquisition as well as over the life of loan. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of December 31, 2019 and 2018:

December 31, 2019	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	\$ 2,971	\$ 2,412	\$ 559	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	12,902	2,387	3,733	5,315	200	434	328	505
Acquired with Deteriorated Credit Quality	405	—	400	—	—	—	5	—
Total Ending Allowance Balance	<u>\$ 16,278</u>	<u>\$ 4,799</u>	<u>\$ 4,692</u>	<u>\$ 5,315</u>	<u>\$ 200</u>	<u>\$ 434</u>	<u>\$ 333</u>	<u>\$ 505</u>
Loans:								
Loans Individually Evaluated for Impairment	\$ 6,269	\$ 4,707	\$ 1,562	\$ —	\$ —	\$ —	\$ —	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	3,076,835	585,328	1,491,090	387,710	226,406	81,429	304,872	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	12,798	1,368	7,212	3,161	369	—	688	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	<u>\$ 3,095,902</u>	<u>\$ 591,403</u>	<u>\$ 1,499,864</u>	<u>\$ 390,871</u>	<u>\$ 226,775</u>	<u>\$ 81,429</u>	<u>\$ 305,560</u>	<u>n/m⁽²⁾</u>

⁽¹⁾ Total recorded investment in loans includes \$13,929 in accrued interest.

⁽²⁾n/m = not meaningful

December 31, 2018	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	\$ 1,823	\$ 143	\$ 1,680	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	13,992	2,810	3,608	5,776	229	420	467	682
Acquired with Deteriorated Credit Quality	8	—	3	—	—	—	5	—
Total Ending Allowance Balance	<u>\$ 15,823</u>	<u>\$ 2,953</u>	<u>\$ 5,291</u>	<u>\$ 5,776</u>	<u>\$ 229</u>	<u>\$ 420</u>	<u>\$ 472</u>	<u>\$ 682</u>
Loans:								
Loans Individually Evaluated for Impairment	\$ 9,619	\$ 3,536	\$ 6,083	\$ —	\$ —	\$ —	\$ —	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	2,722,867	540,768	1,198,806	368,817	208,644	77,761	328,071	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	11,556	1,038	6,993	1,877	365	—	1,283	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	<u>\$ 2,744,042</u>	<u>\$ 545,342</u>	<u>\$ 1,211,882</u>	<u>\$ 370,694</u>	<u>\$ 209,009</u>	<u>\$ 77,761</u>	<u>\$ 329,354</u>	<u>n/m⁽²⁾</u>

⁽¹⁾ Total recorded investment in loans includes \$12,301 in accrued interest.

⁽²⁾n/m = not meaningful

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2019 and 2018:

	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2019			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 3,638	\$ 524	\$ —
Commercial Real Estate Loans	4,738	2,058	—
Agricultural Loans	3,294	2,738	—
Subtotal	11,670	5,320	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	5,042	4,521	2,412
Commercial Real Estate Loans	2,187	1,865	959
Agricultural Loans	—	—	—
Subtotal	7,229	6,386	3,371
Total	\$ 18,899	\$ 11,706	\$ 3,371
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 9,994	\$ 4,624	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 1,134	\$ 813	\$ 400

⁽¹⁾ Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2018			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 3,721	\$ 1,183	\$ —
Commercial Real Estate Loans	5,828	4,383	—
Agricultural Loans	1,726	1,450	—
Subtotal	11,275	7,016	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,353	2,353	143
Commercial Real Estate Loans	4,404	4,212	1,683
Agricultural Loans	—	—	—
Subtotal	6,757	6,565	1,826
Total	\$ 18,032	\$ 13,581	\$ 1,826
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 8,060	\$ 3,958	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 196	\$ 4	\$ 3

⁽¹⁾ Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the years ended December 31, 2019, 2018 and 2017:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
December 31, 2019			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,175	\$ 19	\$ 1
Commercial Real Estate Loans	2,947	81	1
Agricultural Loans	1,790	1	—
Subtotal	5,912	101	2
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	3,753	—	1
Commercial Real Estate Loans	3,141	—	1
Agricultural Loans	—	—	—
Subtotal	6,894	—	2
Total	\$ 12,806	\$ 101	\$ 4
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 4,321	\$ 61	\$ 3
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 1,766	\$ —	\$ —

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
December 31, 2018			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,164	\$ 53	\$ 3
Commercial Real Estate Loans	2,163	80	36
Agricultural Loans	770	—	—
Subtotal	4,097	133	39
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,956	2	9
Commercial Real Estate Loans	4,680	18	—
Agricultural Loans	—	—	—
Subtotal	7,636	20	9
Total	\$ 11,733	\$ 153	\$ 48
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 875	\$ 21	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 151	\$ 29	\$ —

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
December 31, 2017			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 635	\$ 27	\$ 2
Commercial Real Estate Loans	1,184	57	29
Agricultural Loans	690	24	16
Subtotal	2,509	108	47
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,986	4	2
Commercial Real Estate Loans	2,842	17	6
Agricultural Loans	363	—	—
Subtotal	5,191	21	8
Total	\$ 7,700	\$ 129	\$ 55
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 792	\$ 25	\$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 238	\$ 19	\$ 7

All classes of loans, including loans acquired with deteriorated credit quality, are generally placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. For purchased loans, the determination is made at the time of acquisition as well as over the life of the loan. Uncollected accrued interest for each class of loans is reversed against income at the time a loan is placed on non-accrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All classes of loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection.

The following tables present the recorded investment in non-accrual loans and loans past due 90 days or more still on accrual by class of loans as of December 31, 2019 and 2018:

	Non-Accrual		Loans Past Due 90 Days or More & Still Accruing	
	2019	2018	2019	2018
Commercial and Industrial Loans and Leases	\$ 4,940	\$ 2,430	\$ 190	\$ —
Commercial Real Estate Loans	3,433	6,833	—	368
Agricultural Loans	2,739	1,449	—	274
Home Equity Loans	79	88	—	—
Consumer Loans	115	162	—	—
Residential Mortgage Loans	2,496	1,617	—	—
Total	\$ 13,802	\$ 12,579	\$ 190	\$ 642
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 5,393	\$ 4,162	\$ —	\$ 141
Loans Acquired in Current Year (Included in the Total Above)	\$ 2,058	\$ 4,603	\$ —	\$ 96

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2019 and 2018:

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
December 31, 2019						
Commercial and Industrial Loans and Leases	\$ 591,403	\$ 4,689	\$ 83	\$ 799	\$ 5,571	\$ 585,832
Commercial Real Estate Loans	1,499,864	209	431	2,106	2,746	1,497,118
Agricultural Loans	390,871	499	—	329	828	390,043
Home Equity Loans	226,775	1,121	253	80	1,454	225,321
Consumer Loans	81,429	347	156	89	592	80,837
Residential Mortgage Loans	305,560	5,014	1,461	2,308	8,783	296,777
Total ⁽¹⁾	<u>\$ 3,095,902</u>	<u>\$ 11,879</u>	<u>\$ 2,384</u>	<u>\$ 5,711</u>	<u>\$ 19,974</u>	<u>\$ 3,075,928</u>
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	<u>\$ 12,798</u>	<u>\$ 18</u>	<u>\$ —</u>	<u>\$ 1,589</u>	<u>\$ 1,607</u>	<u>\$ 11,191</u>
Loans Acquired in Current Year (Included in the Total Above)	<u>\$ 321,464</u>	<u>\$ 639</u>	<u>\$ 1</u>	<u>\$ 797</u>	<u>\$ 1,437</u>	<u>\$ 320,027</u>

⁽¹⁾ Total recorded investment in loans includes \$13,929 in accrued interest.

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
December 31, 2018						
Commercial and Industrial Loans and Leases	\$ 545,342	\$ 5,414	\$ 183	\$ 72	\$ 5,669	\$ 539,673
Commercial Real Estate Loans	1,211,882	768	705	3,032	4,505	1,207,377
Agricultural Loans	370,694	563	805	274	1,642	369,052
Home Equity Loans	209,009	471	125	60	656	208,353
Consumer Loans	77,761	971	94	149	1,214	76,547
Residential Mortgage Loans	329,354	4,771	1,520	1,387	7,678	321,676
Total ⁽¹⁾	<u>\$ 2,744,042</u>	<u>\$ 12,958</u>	<u>\$ 3,432</u>	<u>\$ 4,974</u>	<u>\$ 21,364</u>	<u>\$ 2,722,678</u>
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	<u>\$ 11,556</u>	<u>\$ 448</u>	<u>\$ 885</u>	<u>\$ 1,259</u>	<u>\$ 2,592</u>	<u>\$ 8,964</u>
Loans Acquired in Current Year (Included in the Total Above)	<u>\$ 481,901</u>	<u>\$ 2,571</u>	<u>\$ 1,620</u>	<u>\$ 2,191</u>	<u>\$ 6,382</u>	<u>\$ 475,519</u>

⁽¹⁾ Total recorded investment in loans includes \$12,301 in accrued interest.

Troubled Debt Restructurings:

In certain instances, the Company may choose to restructure the contractual terms of loans. A troubled debt restructuring occurs when the Bank grants a concession to the borrower that it would not otherwise consider due to a borrower's financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is performed under the Company's internal underwriting policy. The Company uses the same methodology for loans acquired with deteriorated credit quality as for all other loans when determining whether the loan is a troubled debt restructuring.

During the years ended December 31, 2019 and 2018, there were no loans modified as troubled debt restructurings.

The following tables present the recorded investment of troubled debt restructurings by class of loans as of December 31, 2019 and 2018:

	Total	Performing	Non-Accrual ⁽¹⁾
December 31, 2019			
Commercial and Industrial Loans and Leases	\$ 116	\$ 116	\$ —
Commercial Real Estate Loans	—	—	—
Total	<u>\$ 116</u>	<u>\$ 116</u>	<u>\$ —</u>

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

	Total	Performing	Non-Accrual⁽¹⁾
December 31, 2018			
Commercial and Industrial Loans and Leases	\$ 121	\$ 121	\$ —
Commercial Real Estate Loans	—	—	—
Total	\$ 121	\$ 121	\$ —

⁽¹⁾ The non-accrual troubled debt restructurings are included in the Non-Accrual Loan table presented on a previous page.

The Company has not committed to lending any additional amounts as of December 31, 2019 and 2018 to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2017:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2017			
Commercial and Industrial Loans and Leases	2	\$ 477	\$ 477
Commercial Real Estate Loans	1	28	28
Total	3	\$ 505	\$ 505

The troubled debt restructurings described above increased the allowance for loan losses by \$149 and resulted in charge-offs of \$0 during the year ending December 31, 2017.

For the years ended December 31, 2019 and 2018, the Company had no loans modified as troubled debt restructurings. Additionally, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2019, 2018, and 2017.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company classifies loans as to credit risk by individually analyzing loans. This analysis includes commercial and industrial loans, commercial real estate loans, and agricultural loans with an outstanding balance greater than \$250. This analysis is typically performed on at least an annual basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2019					
Commercial and Industrial Loans and Leases	\$ 556,706	\$ 19,671	\$ 15,026	\$ —	\$ 591,403
Commercial Real Estate Loans	1,453,310	30,504	16,050	—	1,499,864
Agricultural Loans	325,991	49,053	15,827	—	390,871
Total	\$ 2,336,007	\$ 99,228	\$ 46,903	\$ —	\$ 2,482,138
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 68	\$ 613	\$ 11,060	\$ —	\$ 11,741
Loans Acquired in Current Year (Included in the Total Above)	\$ 254,629	\$ 16,535	\$ 12,769	\$ —	\$ 283,933
	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2018					
Commercial and Industrial Loans and Leases	\$ 517,497	\$ 7,541	\$ 20,304	\$ —	\$ 545,342
Commercial Real Estate Loans	1,165,937	26,723	19,222	—	1,211,882
Agricultural Loans	313,309	40,983	16,402	—	370,694
Total	\$ 1,996,743	\$ 75,247	\$ 55,928	\$ —	\$ 2,127,918
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ —	\$ 1,436	\$ 8,472	\$ —	\$ 9,908
Loans Acquired in Current Year (Included in the Total Above)	\$ 250,415	\$ 14,972	\$ 11,521	\$ —	\$ 276,908

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For home equity, consumer and residential mortgage loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity as of December 31, 2019 and 2018:

	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
December 31, 2019			
Performing	\$ 226,695	\$ 81,314	\$ 303,065
Nonperforming	80	115	2,495
Total	\$ 226,775	\$ 81,429	\$ 305,560
	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
December 31, 2018			
Performing	\$ 208,921	\$ 77,599	\$ 327,737
Nonperforming	88	162	1,617
Total	\$ 209,009	\$ 77,761	\$ 329,354

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

The following table presents financing receivables purchased and/or sold during the year by portfolio segment:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Total
December 31, 2019			
Purchases	\$ 2,051	\$ —	\$ 2,051
Sales	—	—	—
	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Total
December 31, 2018			
Purchases	\$ —	\$ 1,209	\$ 1,209
Sales	—	6,000	6,000

Contractually required payments receivable of loans purchased with evidence of credit deterioration during the years ended December 31, 2019 and 2018 are included in the table below. The value of the purchased loans included in the table are as of acquisition date.

	2019	2018
Commercial and Industrial Loans	\$ 1,013	\$ 4,245
Commercial Real Estate Loans	8,915	7,103
Agricultural Loans	1,888	1,095
Home Equity Loans	—	565
Consumer Loans	—	11
Residential Mortgage Loans	—	800
Total	\$ 11,816	\$ 13,819
Cash Flows Expected to be Collected at Acquisition	\$ 7,795	\$ 8,802
Fair Value of Acquired Loans at Acquisition	7,009	7,702

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The recorded investment of those loans is as follows:

	2019	2018	2017
Commercial and Industrial Loans	\$ 1,368	\$ 1,038	\$ 988
Commercial Real Estate Loans	7,212	6,993	6,452
Agricultural Loans	3,161	1,877	789
Home Equity Loans	369	365	—
Consumer Loans	—	—	—
Residential Mortgage Loans	688	1,283	888
Total	\$ 12,798	\$ 11,556	\$ 9,117
Carrying Amount, Net of Allowance	\$ 12,393	\$ 11,548	\$ 9,106

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 4 – Loans (continued)

Accretable yield, or income expected to be collected, is as follows:

	2019	2018	2017
Balance at January 1	\$ 3,138	\$ 2,734	\$ 2,521
New Loans Purchased	715	1,100	—
Accretion of Income	(1,197)	(944)	(425)
Reclassifications from Non-accretable Difference	1,756	345	638
Charge-off of Accretable Yield	—	(97)	—
Balance at December 31	<u>\$ 4,412</u>	<u>\$ 3,138</u>	<u>\$ 2,734</u>

For those purchased loans disclosed above, the Company increased the allowances for loan losses by \$400, \$33, and \$11 during the years ended December 31, 2019, 2018, and 2017. The Company reversed allowances for loan losses of \$3, \$36, and \$110 during the years ended December 31, 2019, 2018, and 2017.

The carrying amount of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction totaled \$0 and \$58 as of December 31, 2019 and 2018.

Certain directors, executive officers, and principal shareholders of the Company, including their immediate families and companies in which they are principal owners, were loan customers of the Company during 2019. A summary of the activity of these loans follows:

Balance January 1, 2019	Additions	Changes in Persons Included	Deductions		Balance December 31, 2019
			Collected	Charged-off	
\$ 13,796	\$ 14,556	\$ 6,962	\$ (9,071)	\$ —	\$ 26,243

NOTE 5 – Premises, Furniture, and Equipment

Premises, furniture, and equipment was comprised of the following classifications at December 31:

	2019	2018
Land	\$ 21,186	\$ 17,368
Buildings and Improvements	94,462	79,139
Furniture and Equipment	38,915	34,961
Total Premises, Furniture and Equipment	154,563	131,468
Less: Accumulated Depreciation	(57,912)	(50,841)
Total	<u>\$ 96,651</u>	<u>\$ 80,627</u>

Depreciation expense was \$5,773, \$4,739 and \$3,933 for 2019, 2018 and 2017, respectively.

NOTE 6 – Deposits

At year end 2019, stated maturities of time deposits were as follows:

2020	\$ 473,080
2021	97,936
2022	33,024
2023	16,035
2024	11,104
Thereafter	217
Total	<u>\$ 631,396</u>

Time deposits and brokered certificates of deposit of \$250 or more at December 31, 2019 and 2018 were \$143,103 and \$128,459, respectively.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 6 – Deposits (continued)

Time deposits originated from outside the geographic area, generally through brokers, totaled \$14,582 and \$91,615 at December 31, 2019 and 2018, respectively.

Deposits from principal officers, directors, and their affiliates at year-end 2019 and 2018 were \$49.6 million and \$62.6 million, respectively.

NOTE 7 – FHLB Advances and Other Borrowings

The Company's funding sources include Federal Home Loan Bank advances, borrowings from other third party correspondent financial institutions, issuance and sale of subordinated debt and other capital securities, and repurchase agreements. Information regarding each of these types of borrowings or other indebtedness is as follows:

	December 31,	
	2019	2018
Long-term Advances from Federal Home Loan Bank collateralized by qualifying mortgages, investment securities, and mortgage-backed securities	\$ 123,573	\$ 86,626
Term Loans	—	25,000
Junior Subordinated Debentures assumed from American Community Bancorp, Inc.	5,924	5,775
Junior Subordinated Debentures assumed from River Valley Bancorp, Inc.	5,818	5,712
Junior Subordinated Debentures assumed from Citizens First Corporation	4,040	—
Subordinated Debentures	39,214	—
Finance Lease Obligation	3,381	3,522
Long-term Borrowings	181,950	126,635
Overnight Variable Rate Advances from Federal Home Loan Bank collateralized by qualifying mortgages, investment securities, and mortgage-backed securities	\$ 124,000	\$ 195,000
Federal Funds Purchased	4,311	9,500
Repurchase Agreements	39,425	45,274
Promissory Notes Payable	—	—
Short-term Borrowings	167,736	249,774
Total Borrowings	\$ 349,686	\$ 376,409

Repurchase agreements, which are classified as secured borrowings, generally mature within one day of the transaction date. Repurchase agreements are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the value of the underlying securities.

	2019	2018
Average Daily Balance During the Year	\$ 35,916	\$ 38,454
Average Interest Rate During the Year	0.56%	0.55%
Maximum Month-end Balance During the Year	\$ 39,425	\$ 45,274
Weighted Average Interest Rate at Year-end	0.57%	0.63%

At December 31, 2019, interest rates on the fixed rate long-term FHLB advances ranged from 1.54% to 7.22% with a weighted average rate of 1.95%. At December 31, 2018 interest rates on the fixed rate long-term FHLB advances ranged from 1.54% to 7.22% with a weighted average rate of 1.75%. At December 31, 2019 and 2018, the Company had no advances containing options whereby the FHLB may convert a fixed rate advance to an adjustable rate advance.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 7 - FHLB Advances and Other Borrowings (continued)

On June 25, 2019, the Company entered into Subordinated Note Purchase Agreements (collectively, the “Purchase Agreement”) with certain qualified institutional buyers and institutional accredited investors (the “Purchasers”) pursuant to which the Company sold and issued \$40.0 million in aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2029 (the “Notes”). The Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). The Company used the proceeds from the offering to pay \$15.0 million of the approximately \$15.5 million of cash consideration upon closing of the Citizens First Corporation merger and the remaining balance to repay the Company’s \$25.0 million term loan from U.S. Bank National Association (“U.S. Bank”) dated October 11, 2018.

The Notes have a ten-year term, from and including the date of issuance to but excluding June 30, 2024, and will bear interest at a fixed annual rate of 4.50%, payable semi-annually in arrears. From and including June 30, 2024 to but excluding the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then-current three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 268 basis points, payable quarterly in arrears. The Notes are redeemable, in whole or in part, on June 30, 2024, on any scheduled interest payment date thereafter and at any time upon the occurrence of certain events. The Purchase Agreement contains certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand.

On June 25, 2019, in connection with the sale and issuance of the Notes, the Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the Purchasers. Pursuant to the Registration Rights Agreement, the Company completed on November 4, 2019, an offer to exchange its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2029, which were registered under the Securities Act of 1933, as amended, for any and all of the outstanding Notes, with beneficial owners holding an aggregate principal amount of \$36.5 million electing to participate in the exchange.

The Notes, including the registered exchange notes, were issued under an Indenture, dated June 25, 2019 (the “Indenture”), by and between the Company and U.S. Bank National Association, as trustee. The Notes are not subject to any sinking fund and are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. The Notes are unsecured, subordinated obligations of the Company only and are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank junior in right to payment to the Company’s current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company.

At December 31, 2018, the long-term borrowings shown above included \$25 million outstanding on the U.S. Bank term loan discussed above. At December 31, 2018, interest on the term loan was 5.24%, which was based upon U.S. Bank’s cost of funds, plus 1.75%.

At December 31, 2019, the parent company had a \$15 million line of credit with no outstanding balance. The line of credit matures September 28, 2020. Interest on the line of credit is based upon one-month LIBOR plus 1.75% and includes an unused commitment fee of 0.25%.

At December 31, 2019, scheduled principal payments on long-term borrowings, excluding the capitalized lease obligation and acquired subordinated debentures (which are discussed below) are as follows:

2020	\$	40,494
2021		7,914
2022		49,834
2023		—
2024		24,917
Thereafter		39,628
Total	\$	<u>162,787</u>

The Company assumed the obligations of junior subordinated debentures through the acquisitions of American Community Bancorp, Inc., River Valley Bancorp and Citizens First Corporation. The junior subordinated debentures were issued to ACB Capital Trust I, ACB Capital Trust II, RIVR Statutory Trust I, and Citizens First Statutory Trust I. The trusts are wholly owned by the Company. In accordance with accounting guidelines, the trusts are not consolidated with the Company’s financials, but rather the subordinated debentures are shown as borrowings. The Company guarantees payment of distributions on the trust preferred securities issued by ACB Trust I, ACB Trust II, RIVR Statutory Trust I, and Citizens First Statutory Trust I. Interest is

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 7 - FHLB Advances and Other Borrowings (continued)

payable on a quarterly basis. These securities qualify as Tier 1 capital (with certain limitations) for regulatory purposes. \$15,447 of the junior subordinated debentures were treated as Tier 1 capital for regulatory capital purposes as of December 31, 2019. \$11,311 of the junior subordinated debentures were treated as Tier 1 capital for regulatory capital purposes as of December 31, 2018. As a result of the acquisitions of American Community, River Valley, and Citizens First these liabilities were recorded at fair value at the acquisition date with the discount amortizing into interest expense over the life of the liability, ultimately accreting to the issuance amount disclosed below.

The following table summarizes the terms of each issuance:

	Date of Issuance	Issuance Amount	Carrying Amount at December 31, 2019	Variable Rate	Rate as of December 31, 2019	Rate as of December 31, 2018	Maturity Date
ACB Trust I	5/6/2005	\$ 5,155	\$ 3,737	90 day LIBOR + 2.15%	4.09%	4.95%	May, 2035
ACB Trust II	7/15/2005	3,093	2,187	90 day LIBOR + 1.85%	3.76%	4.50%	July, 2035
RIVR Statutory Trust I	3/26/2003	7,217	5,818	3-Month LIBOR + 3.15%	5.10%	5.97%	March, 2033
Citizens First Statutory Trust I	10/16/2006	5,155	4,040	3-Month LIBOR + 1.65%	3.75%	N/A	January, 2037

NOTE 8 - Shareholders' Equity

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi- year schedule and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0% for 2015 to 2.5% on January 1, 2019. The capital conservation buffer for 2019 is 2.500% and for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. At December 31, 2019, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications, including well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 8 – Shareholders' Equity (continued)

At December 31, 2019, consolidated and bank actual capital and minimum required levels are presented below:

	Actual:		Minimum Required For Capital Adequacy Purposes:		Minimum Required To Be Well-Capitalized Under Prompt Corrective Action Regulations:	
	Amount	Ratio	Amount	Ratio ⁽¹⁾	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 499,020	14.28%	\$ 279,499	8.00%	N/A	N/A
Bank	447,090	12.82	278,997	8.00	\$ 348,746	10.00%
Tier 1 (Core) Capital (to Risk Weighted Assets)						
Consolidated	\$ 442,742	12.67%	\$ 209,624	6.00%	N/A	N/A
Bank	430,812	12.35	209,248	6.00	\$ 278,997	8.00%
Common Equity Tier 1 (CET 1) Capital Ratio (to Risk Weighted Assets)						
Consolidated	\$ 427,295	12.23%	\$ 157,218	4.50%	N/A	N/A
Bank	430,812	12.35	156,936	4.50	\$ 226,685	6.50%
Tier 1 (Core) Capital (to Average Assets)						
Consolidated	\$ 442,742	10.53%	\$ 168,195	4.00%	N/A	N/A
Bank	430,812	10.27	167,765	4.00	\$ 209,706	5.00%

⁽¹⁾ Excludes capital conservation buffer.

At December 31, 2018, consolidated and bank actual capital and minimum required levels are presented below:

	Actual:		Minimum Required For Capital Adequacy Purposes:		Minimum Required To Be Well-Capitalized Under Prompt Corrective Action Regulations:	
	Amount	Ratio	Amount	Ratio ⁽¹⁾	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 381,385	12.36%	\$ 246,805	8.00%	N/A	N/A
Bank	381,294	12.37	246,594	8.00	\$ 308,242	10.00%
Tier 1 (Core) Capital (to Risk Weighted Assets)						
Consolidated	\$ 365,562	11.85%	\$ 185,104	6.00%	N/A	N/A
Bank	365,471	11.86	184,945	6.00	\$ 246,594	8.00%
Common Equity Tier 1 (CET 1) Capital Ratio (to Risk Weighted Assets)						
Consolidated	\$ 354,251	11.48%	\$ 138,828	4.50%	N/A	N/A
Bank	365,471	11.86	138,709	4.50	\$ 200,357	6.50%
Tier 1 (Core) Capital (to Average Assets)						
Consolidated	\$ 365,562	9.75%	\$ 149,917	4.00%	N/A	N/A
Bank	365,471	9.78	149,484	4.00	\$ 186,854	5.00%

⁽¹⁾ Excludes capital conservation buffer.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 8 – Shareholders' Equity (continued)

The Company and the bank at year end 2019 and 2018 were categorized as well-capitalized. There have been no conditions or events that management believes has changed the classification of the bank under the prompt corrective action regulations since the last notification from regulators. Regulations require the maintenance of certain capital levels at the bank, and may limit the dividends payable by the affiliate to the holding company, or by the holding company to its shareholders. At December 31, 2019 the bank had \$76,000 in retained earnings available for payment of dividends to the parent company without prior regulatory approval.

Equity Plans and Equity Based Compensation

During the periods presented, the Company maintained two equity incentive plans under which stock options, restricted stock, and other equity incentive awards could be granted. Those plans include (i) the Company's 2009 Long-Term Equity Incentive Plan, under which no new grants may be made (the "2009 LTI Plan"), and (ii) the Company's 2019 Long-Term Equity Incentive Plan (the "2019 LTI Plan"). The 2019 LTI Plan, which authorizes a maximum aggregate issuance of 1,000,000 shares of common stock (subject to certain permitted adjustments), became effective on May 16, 2019, following approval of the Company's shareholders. It will remain in effect until May 16, 2029, or until all shares of common stock subject to the 2019 LTI Plan are distributed, all awards have expired or terminated, or the plan is terminated pursuant to its terms, whichever occurs first.

Stock Options

Options may be designated as incentive stock options or as nonqualified stock options. While the date after which options are first exercisable is determined by the appropriate committee of the Board of Directors of the Company or, in the case of options granted to directors, by the Board of Directors, no stock option may be exercised after ten years from the date of grant (twenty years in the case of nonqualified stock options). The exercise price of stock options granted pursuant to the plans must be no less than the fair market value of the Common Stock on the date of the grant.

The plans authorize an optionee to pay the exercise price of options in cash or in common shares of the Company or in some combination of cash and common shares. An optionee may tender already-owned common shares to the Company in exercise of an option. Certain of these plans authorize an optionee to surrender the value of an unexercised option in payment of an equivalent amount of the exercise price of the option. The Company typically issues authorized but unissued common shares upon the exercise of options.

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of common stock as of the reporting date.

During 2019, 2018 and 2017, the Company granted no options, and recorded no stock compensation expense related to option grants. The Company recorded no other stock compensation expense applicable to options during the years ended December 31, 2019, 2018 and 2017.

Restricted Stock

During the periods presented, awards of long-term incentives were granted in the form of restricted stock. Awards that were granted to management and selected other employees under a management and employee incentive plan were granted in tandem with cash credit entitlements (typically in the form of 60% restricted stock grants and 40% cash credit entitlements). The management and employee restricted stock grants and tandem cash credit entitlements awarded will vest in three equal installments of 33.3% with the first annual vesting on December 5th of the year of the grant and on December 5th of the next two succeeding years. Awards that were granted to directors as additional retainer for their services do not include any cash credit entitlement. These director restricted stock grants are subject to forfeiture in the event that the recipient of the grant does not continue in service as a director of the Company through December 5th of the year after grant or do not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant.

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 8 – Shareholders' Equity (continued)

The following table presents expense recorded for restricted stock and cash entitlements as well as the related tax effect for the years ended 2019, 2018, and 2017:

	2019	2018	2017
Restricted Stock Expense	\$ 1,287	\$ 1,355	\$ 1,246
Cash Entitlement Expense	639	718	657
Tax Effect	(499)	(542)	(746)
Net of Tax	\$ 1,427	\$ 1,531	\$ 1,157

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled \$2,022, \$2,172, and \$1,983 as of December 31, 2019, 2018, and 2017, respectively.

The following table presents information on restricted stock grants outstanding for the period shown:

	Year Ended December 31, 2019	
	Restricted Shares	Weighted Average Market Price at Grant
Outstanding at Beginning of Period	44,682	\$ 32.47
Granted	41,361	31.64
Issued and Vested	(41,359)	32.31
Forfeited	(1,405)	31.97
Outstanding at End of Period	43,279	\$ 32.71

Employee Stock Purchase Plan

Through August 16, 2019, the Company maintained the 2009 Employee Stock Purchase Plan (the "2009 ESPP") whereby eligible employees had the option to purchase the Company's common stock at a discount. The purchase price of the shares under this Plan was set at 95% of the fair market value of the Company's common stock as of the last day of the plan year.

The Company's shareholders approved the Company's new 2019 Employee Stock Purchase Plan (the "2019 ESPP") on May 16, 2019. The 2019 ESPP replaces the 2009 ESPP, which expired on its own terms on August 16, 2019. The 2019 ESPP, which became effective as of October 1, 2019, provides for a series of 3-month offering periods, commencing on the first day and ending on the last trading day of each calendar quarter, for the purchase of the Company's common stock by participating employees. The purchase price of the shares has been set at 95% of the fair market value of the Company's common stock on the last trading day of the offering period. A total of 750,000 common shares has been reserved for issuance under the 2019 ESPP. The 2019 ESPP will continue until September 30, 2029, or, if earlier, until all of the shares of common stock allocated to the 2019 ESPP have been purchased.

Funding for the purchase of common stock is from employee and Company contributions.

In 2019, the Company recorded \$23 of expense, \$1 net of tax, for the employee stock purchase plan. In 2018, the Company recorded \$39 of expense, \$29 net of tax, for the employee stock purchase plan. In 2017, the Company recorded \$32 of expense, \$19 net of tax, for the employee stock purchase plan. There was no unrecognized compensation expense as of December 31, 2019, 2018 and 2017 for the Employee Stock Purchase Plans.

Stock Repurchase Plan

On April 26, 2001, the Company announced that its Board of Directors approved a stock repurchase program for up to 911,631 of the outstanding Common Shares of the Company. Shares may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program are purchased. The Board of Directors established no expiration date for this program. As of December 31, 2019, the Company had purchased 502,447 shares under the program. No shares were purchased under the program during the years ended December 31, 2019, 2018 and 2017.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 9 – Employee Benefit Plans

The Company provides a contributory trustee 401(k) deferred compensation and profit sharing plan, which covers substantially all employees. The Company agrees to match certain employee contributions under the 401(k) portion of the plan, while profit sharing contributions are discretionary and are subject to determination by the Board of Directors. Company contributions were \$1,755, \$1,438, and \$1,328 for 2019, 2018, and 2017, respectively.

The Company self-insures employee health benefits. Stop loss insurance covers annual losses exceeding \$175 per covered family as well as an aggregating specific deductible of \$300 for the Company. Management's policy is to establish a reserve for claims not submitted by a charge to earnings based on prior experience. Charges to earnings were \$5,495, \$3,724, and \$4,192 for 2019, 2018, and 2017, respectively.

The Company maintains deferred compensation plans for the benefit of certain directors and officers. Under the plans, the Company agrees in return for the directors and officers deferring the receipt of a portion of their current compensation, to pay a retirement benefit computed as the amount of the compensation deferred plus accrued interest at a variable rate. Accrued benefits payable totaled \$2,043 and \$2,046 at December 31, 2019 and 2018. Deferred compensation expense was \$243, \$324, and \$187 for 2019, 2018, and 2017, respectively. In conjunction with the plans, the Company purchased life insurance on certain directors and officers.

Postretirement Medical and Life Benefit Plan

The Company has an unfunded postretirement benefit plan covering substantially all of its employees. The medical plan is contributory with the participants' contributions adjusted annually; the life insurance plans are noncontributory.

Changes in Accumulated Postretirement Benefit Obligations:	2019	2018
Obligation at the Beginning of Year	\$ 1,154	\$ 1,061
Unrecognized Loss (Gain)	296	74
Components of Net Periodic Postretirement Benefit Cost		
Service Cost	83	69
Interest Cost	43	34
Net Expected Benefit Payments	(92)	(84)
Amendments	14	—
Obligation at End of Year	\$ 1,498	\$ 1,154

Components of Postretirement Benefit Expense:	2019	2018	2017
Service Cost	\$ 83	\$ 69	\$ 50
Interest Cost	43	34	29
Amortization of Unrecognized Net (Gain) Loss	37	32	8
Net Postretirement Benefit Expense	163	135	87
Net Gain (Loss) During Period Recognized in Other Comprehensive Income (Loss)	273	41	218
Total Recognized in Net Postretirement Benefit Expense and Other Comprehensive Income	\$ 436	\$ 176	\$ 305

Assumptions Used to Determine Net Periodic Cost and Benefit Obligations:	2019	2018	2017
Discount Rate	2.81%	3.91%	3.35%

Assumed Health Care Cost Trend Rates at Year-end:	2019	2018
Health Care Cost Trend Rate Assumed for Next Year	8.00%	8.00%
Rate that the Cost Trend Rate Gradually Declines to	4.50%	5.00%
Year that the Rate Reaches the Rate it is Assumed to Remain at	2026	2024

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 9 – Employee Benefit Plans (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2019:

	One-Percentage-Point Increase		One-Percentage-Point Decrease	
Effect on Total of Service and Interest Cost	\$	12	\$	(11)
Effect on Postretirement Benefit Obligation	\$	101	\$	(90)

Contributions

The Company expects to contribute \$96 to its postretirement medical and life insurance plan in 2020.

Estimated Future Benefits

The following postretirement benefit payments, which reflect expected future service, are expected to be paid:

2020	\$	96
2021		111
2022		113
2023		130
2024		116
2025-2029		726

Multi-Employer Pension Plan

Through the acquisition of River Valley Bancorp, the Company acquired a participation in a multi-employer defined benefit pension plan. Effective December 31, 2015, the plan was frozen. Pension expense was approximately \$84 and \$72 during 2019 and 2018, respectively. Specific plan asset and accumulated benefit information for the Company's portion of the fund is not available. Under the Employee Retirement Income and Security Act of 1974 ("ERISA"), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but currently there is no intention to withdraw.

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (the "Pentegra DB Plan"), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

Total contributions made to the Pentegra DB Plan, as reported on Form 5500, equal \$164,570 and \$367,119 for the plan years ended June 30, 2018 and 2017, respectively. The Company's contributions to the Pentegra DB Plan for the fiscal year ending December 31, 2019 were not more than 5% of total contributions to the Pentegra DB Plan for the year ending June 30, 2018.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 10 – Income Taxes

The provision for income taxes consists of the following:	2019	2018	2017
Current Federal	\$ 8,263	\$ 6,699	\$ 10,481
Current State	1,004	412	473
Deferred Federal	3,545	2,226	276
Deferred State	(795)	191	304
Total	<u>\$ 12,017</u>	<u>\$ 9,528</u>	<u>\$ 11,534</u>

Effective tax rates differ from the federal statutory rate of 21% for 2019 and 2018, and 35% for 2017 applied to income before income taxes due to the following:

	2019	2018	2017
Statutory Rate Times Pre-tax Income	\$ 14,960	\$ 11,772	\$ 18,274
Add (Subtract) the Tax Effect of:			
Income from Tax-exempt Loans and Investments	(2,246)	(2,129)	(3,304)
State Income Tax, Net of Federal Tax Effect	165	476	505
General Business Tax Credits	(1,039)	(914)	(715)
Company Owned Life Insurance	(421)	(260)	(469)
Revaluation of Deferred Tax Assets/Liabilities due to Tax Reform	—	—	(2,284)
Other Differences	598	583	(473)
Total Income Taxes	<u>\$ 12,017</u>	<u>\$ 9,528</u>	<u>\$ 11,534</u>

The net deferred tax liability at December 31 consists of the following:

	2019	2018
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 3,466	\$ 3,661
Lease Liability (Operating Leases)	2,198	—
Unrealized Loss on Securities	—	1,885
Deferred Compensation and Employee Benefits	787	736
Other-than-temporary Impairment	240	238
Accrued Expenses	1,209	906
Business Combination Fair Value Adjustments	3,475	3,715
Pension and Postretirement Plans	200	119
Other Real Estate Owned	48	17
Non-Accrual Loan Interest Income	554	352
Net Operating Loss Carryforward	786	322
Other	1,044	366
Total Deferred Tax Assets	<u>14,007</u>	<u>12,317</u>
Deferred Tax Liabilities:		
Depreciation	(2,498)	(1,879)
Leasing Activities, Net	(10,816)	(8,999)
Unrealized Gain on Securities	(4,302)	—
FHLB Stock Dividends	(245)	(192)
Prepaid Expenses	(629)	(345)
Intangibles	(2,032)	(1,169)
Deferred Loan Fees	(589)	(514)
Mortgage Servicing Rights	(75)	(238)
Right of Use Asset (Operating Leases)	(2,180)	—
Other	(685)	(674)
Total Deferred Tax Liabilities	<u>(24,051)</u>	<u>(14,010)</u>
Valuation Allowance	—	—
Net Deferred Tax Liability	<u>\$ (10,044)</u>	<u>\$ (1,693)</u>

Notes to the Consolidated Financial Statements**Dollars in thousands, except per share data**

NOTE 10 – Income Taxes (continued)

On December 22, 2017, the U.S. government enacted comprehensive tax reform legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). Among other things, the Tax Act includes significant changes to the U.S. corporate income tax system, including: reducing the federal corporate rate from 35% to 21%; modifying the rules regarding limitations on certain deductions for executive compensation; introducing a capital investment deduction in certain circumstances; placing certain limitations on the interest deduction; and modifying the rules regarding the usability of net operating losses. Based upon its initial analysis of the Tax Act, the Company revalued its deferred tax assets and deferred tax liabilities at December 31, 2017 and, as a result, recorded a \$2,284 reduction in income tax expense during the fourth quarter of 2017. This benefit was based on reasonable estimates by the Company of certain income tax effects of the Tax Act.

Under the Internal Revenue Code, through 1996 three acquired banking companies, which are now a part of the Company’s single banking subsidiary, were allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The acquired banks were formerly known as River Valley Financial Bank (acquired in March 2016), Peoples Community Bank (acquired in October 2005) and First American Bank (acquired in January 1999). Subject to certain limitations, these Banks were permitted to deduct from taxable income an allowance for bad debts based on a percentage of taxable income before such deductions or actual loss experience. The Banks generally computed its annual addition to its bad debt reserves using the percentage of taxable income method; however, due to certain limitations in 1996, the Banks were only allowed a deduction based on actual loss experience.

Retained earnings at December 31, 2019, include approximately \$5,095 for which no provision for federal income taxes has been made. This amount represents allocations of income for allowable bad debt deductions. Reduction of amounts so allocated for purposes other than tax bad debt losses will create taxable income, which will be subject to the then current corporate income tax rate. It is not contemplated that amounts allocated to bad debt deductions will be used in any manner to create taxable income. The unrecorded deferred income tax liability on the above amount at December 31, 2019 was approximately \$1,070.

As of December 31, 2019, the Company had net operating loss carryforwards of \$18,267, which expire in years ranging from 2020 through 2039. These net operating loss carryforwards were primarily derived from the acquisition of First Security and Citizens First.

Unrecognized Tax Benefits

The Company had no unrecognized tax benefits as of December 31, 2019, 2018, and 2017, and did not recognize any increase in unrecognized benefits during 2019 relative to any tax positions taken in 2019. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company’s policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2019, 2018, and 2017. The Company and its corporate subsidiaries file a consolidated U.S. Federal income tax return, which is subject to examination for all years after 2015. The Company and its corporate subsidiaries doing business in Indiana file a combined Indiana unitary return, which is subject to examination for all years after 2015.

NOTE 11 - Revenue Recognition

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), for the years ended December 31, 2019 and 2018. Trust and investment product fees are included in the trust and investment advisory services segment while insurance revenues are included in the insurance segment. All other revenue streams are primarily included in the banking segment.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 11 – Revenue Recognition (continued)

	Year Ended		
	December 31,		
Non-interest Income	2019	2018	2017
In-Scope of Topic 606:			
Trust and Investment Product Fees	\$ 7,278	\$ 6,680	\$ 5,272
Service Charges on Deposit Accounts	8,718	7,044	6,178
Insurance Revenues	8,940	8,330	7,979
Interchange Fee Income	9,450	7,278	4,567
Other Operating Income	2,073	1,720	1,511
Non-interest Income (in-scope of Topic 606)	36,459	31,052	25,507
Non-interest Income (out-of-scope of Topic 606)	9,042	6,018	6,347
Total Non-interest Income	\$ 45,501	\$ 37,070	\$ 31,854

A description of the Company's revenue streams accounted for under Topic 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges and statement rendering, are recognized at the time the transaction is executed (the point in time the Company fills the customer's request). Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

Interchange Fee Income: The Company earns interchange fees from debit/credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Trust and Investment Product Fees: The Company earns trust and investment brokerage fees from its contracts with trust and brokerage customers to manage assets for investment and/or to transact their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (trade date).

Insurance Revenues: The Company earns insurance revenue from commissions derived from the sale of personal and corporate property and casualty insurance products. These commissions are primarily earned over time as the Company provides the contracted insurance product to customers.

Notes to the Consolidated Financial Statements
Dollars in thousands, except per share data

NOTE 12 – Per Share Data

The computation of Basic Earnings per Share and Diluted Earnings per Share are provided below:

	2019	2018	2017
Basic Earnings per Share:			
Net Income	\$ 59,222	\$ 46,529	\$ 40,676
Weighted Average Shares Outstanding	25,824,538	23,381,616	22,924,726
Basic Earnings per Share	\$ 2.29	\$ 1.99	\$ 1.77
Diluted Earnings per Share:			
Net Income	\$ 59,222	\$ 46,529	\$ 40,676
Weighted Average Shares Outstanding	25,824,538	23,381,616	22,924,726
Stock Options, Net	—	—	—
Diluted Weighted Average Shares Outstanding	25,824,538	23,381,616	22,924,726
Diluted Earnings per Share	\$ 2.29	\$ 1.99	\$ 1.77

There were no anti-dilutive shares at December 31, 2019, 2018, and 2017. There were no stock options outstanding at December 31, 2019, 2018 and 2017. Restricted stock units are participating shares and included in outstanding shares for purposes of the calculation of earnings per share.

NOTE 13 - Leases

On January 1, 2019, the Company adopted the amendments to ASC 842, Leases, which requires lessees to recognize lease assets and liabilities arising from operating leases on the balance sheet.

At the inception of a contract, an entity should determine whether the contract contains a lease. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. Control over the use of an identified asset means that the customer has both (1) the right to obtain substantially all of the economic benefits from the use of the asset and (2) the right to direct the use of the asset.

The Company has finance leases for branch offices as well as operating leases for branch offices, ATM locations and certain office equipment. In prior periods, the Company included the finance leases on the balance sheet with a right-of-use asset as well as a lease liability. Upon adopting the amended guidance, the Company recorded a right-of-use asset and lease liability for its operating leases in the amount of \$9,034. Also, at this time, management considered a reasonable expectation of renewal periods to include for the leases. The right-of-use asset is included in the 'Premises, Furniture and Equipment, Net' line of the consolidated balance sheet. The lease liability is included in the 'Accrued Interest Payable and Other Liabilities' line of the consolidated balance sheet.

The Company used the implicit lease rate when determining the present value of lease payments for finance leases. The present value of lease payments for operating leases was determined using the incremental borrowing rate as of the date the Company adopted this standard.

The components of lease expense were as follows:

	December 31, 2019
Finance Lease Cost:	
Amortization of Right-of-Use Assets	\$ 210
Interest on Lease Liabilities	378
Operating Lease Cost	1,807
Short-term Lease Cost	68
Total Lease Cost	\$ 2,463

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 13 – Leases (continued)

The weighted average lease term and discount rates were as follows:

	December 31, 2019
Weighted Average Remaining Lease Term:	
Finance Leases	12 Years
Operating Leases	8 Years
Weighted Average Discount Rate:	
Finance Leases	11.49%
Operating Leases	3.29%

Supplemental balance sheet information related to leases was as follows:

	December 31, 2019
Finance Leases	
Premises, Furniture and Equipment, Net	\$ 2,488
Other Borrowings	\$ 3,381
Operating Leases	
Operating Lease Right-of-Use Assets	\$ 9,052
Operating Lease Liabilities	\$ 9,125

Supplemental cash flow information related to leases was as follows:

	December 31, 2019
Cash Paid for Amounts in the Measurement of Lease Liabilities:	
Operating Cash Flows from Finance Leases	\$ 378
Operating Cash Flows from Operating Leases	1,734
Financing Cash Flows from Finance Leases	109

The following table presents a maturity analysis of Finance and Operating Lease Liabilities:

	December 31, 2019	
	Finance Leases	Operating Leases
Year 1	\$ 519	\$ 1,713
Year 2	519	1,502
Year 3	519	1,335
Year 4	519	1,234
Year 5	519	1,095
Thereafter	3,472	3,661
Total Lease Payments	6,067	10,540
Less Imputed Interest	(2,686)	(1,415)
Total	\$ 3,381	\$ 9,125

NOTE 14 – Commitments and Off-balance Sheet Items

In the normal course of business, there are various commitments and contingent liabilities, such as commitments to extend credit and commitments to sell loans, which are not reflected in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to make

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 14 – Commitments and Off-balance Sheet Items (continued)

loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make commitments as it uses for on-balance sheet items.

The Company's exposure to credit risk for commitments to sell loans is dependent upon the ability of the counter-party to purchase the loans. This is generally assured by the use of government sponsored entity counterparts. These commitments are subject to market risk resulting from fluctuations in interest rates.

Commitments and contingent liabilities are summarized as follows, at December 31:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Fund Loans:				
Consumer Lines	\$ 11,637	\$ 381,050	\$ 11,356	\$ 343,666
Commercial Operating Lines	47,310	384,513	18,738	325,672
Residential Mortgages	29,654	2,017	16,640	3,559
Total Commitments to Fund Loans	<u>\$ 88,601</u>	<u>\$ 767,580</u>	<u>\$ 46,734</u>	<u>\$ 672,897</u>
Commitments to Sell Loans:				
Mandatory	\$ —	\$ —	\$ 254	\$ —
Non-mandatory	\$ 19,406	\$ —	\$ 24,095	\$ 1,718
Standby Letters of Credit	\$ 1,138	\$ 6,549	\$ 3,284	\$ 5,863

The fixed rate commitments to fund loans have interest rates ranging from 3.00% to 21.00% and maturities ranging from less than 1 year to 32 years. Since many commitments to make loans expire without being used, these amounts do not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower, and may include accounts receivable, inventory, property, land, and other items.

NOTE 15 - Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For investment securities where quoted prices are not available, fair values are calculated based on market prices of similar investment securities (Level 2). For investment securities where quoted prices or market prices of similar investment securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Level 3 pricing is obtained from a third-party based upon similar trades that are not traded frequently without adjustment by the Company. At December 31, 2019, the Company held \$4.0 million in Level 3 securities which consist of non-rated Obligations of State and Political Subdivisions. Absent the credit rating, significant assumptions must be made such that the credit risk input becomes an unobservable input and thus these investment securities are reported by the Company in a Level 3 classification.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 15 – Fair Value (continued)

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: Fair values for impaired collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances include consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investor's required return. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Comparable sales adjustments are based on known sales prices of similar type and similar use properties and duration of time that the property has been on the market to sell. Such adjustments made in the appraisal process are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Company's Risk Management Area reviews the assumptions and approaches utilized in the appraisal. In determining the value of impaired collateral dependent loans and other real estate owned, significant unobservable inputs may be used which include: physical condition of comparable properties sold, net operating income generated by the property and investor rates of return.

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for similar assets, adjusted for specific attributes of that loan resulting in a Level 2 classification.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at December 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	\$ —	\$ 320,279	\$ 4,021	\$ 324,300
MBS/CMO	—	530,525	—	530,525
Total Securities	\$ —	\$ 850,804	\$ 4,021	\$ 854,825
Loans Held-for-Sale	\$ —	\$ 17,713	\$ —	\$ 17,713
Derivative Assets	\$ —	\$ 2,607	\$ —	\$ 2,607
Derivative Liabilities	\$ —	\$ 2,829	\$ —	\$ 2,829

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 15 – Fair Value (continued)

	Fair Value Measurements at December 31, 2018 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	\$ —	\$ 289,542	\$ 4,991	\$ 294,533
MBS/CMO	—	518,078	—	518,078
Total Securities	\$ —	\$ 807,620	\$ 4,991	\$ 812,611
Loans Held-for-Sale	\$ —	\$ 4,263	\$ —	\$ 4,263
Derivative Assets	\$ —	\$ 1,713	\$ —	\$ 1,713
Derivative Liabilities	\$ —	\$ 1,734	\$ —	\$ 1,734

There were no transfers between Level 1 and Level 2 for the periods ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

	2019	2018
Aggregate Fair Value	\$ 17,713	\$ 4,263
Contractual Balance	17,378	4,231
Gain (Loss)	335	32

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2019, 2018 and 2017 for loans held for sale were \$303, (\$111), and (\$147), respectively.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

	Obligations of State and Political Subdivisions	
	2019	2018
Balance of Recurring Level 3 Assets at January 1	\$ 4,991	\$ 5,649
Total Gains or Losses Included in Other Comprehensive Income	(25)	(69)
Maturities / Calls	(945)	(920)
Acquired through Bank Acquisition	—	331
Balance of Recurring Level 3 Assets at December 31	\$ 4,021	\$ 4,991

Of the total gain/loss included in earnings for the years ended December 31, 2019 and 2018, (\$25) and (\$69) was attributable to other changes in fair value, respectively.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 15 – Fair Value (continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at December 31, 2019 Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Impaired Loans				
Commercial and Industrial Loans	\$ —	\$ —	\$ 2,109	\$ 2,109
Commercial Real Estate Loans	—	—	493	493

Fair Value Measurements at December 31, 2018 Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Impaired Loans				
Commercial and Industrial Loans	\$ —	\$ —	\$ 2,210	\$ 2,210
Commercial Real Estate Loans	—	—	2,528	2,528

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$5,574 with a valuation allowance of \$2,971, resulting in an increase to the provision for loan losses of \$1,149 for the year ended December 31, 2019. For the year ended December 31, 2018, impaired loans had a carrying amount of \$6,561 with a valuation allowance of \$1,823, resulting in a decrease to the provision for loan losses of \$411.

There was no Other Real Estate carried at fair value less costs to sell at December 31, 2019 and 2018. No charge to earnings was included in the years ended December 31, 2019 and 2018.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2019 and 2018:

December 31, 2019	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	\$ 2,109	Sales comparison approach	Adjustment for physical condition of comparable properties sold	29% - 100% (64%)
Impaired Loans - Commercial Real Estate Loans	\$ 493	Sales comparison approach	Adjustment for physical condition of comparable properties sold	47% - 91% (64%)
December 31, 2018	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	\$ 2,210	Sales comparison approach	Adjustment for physical condition of comparable properties sold	0% - 100% (99%)
Impaired Loans - Commercial Real Estate Loans	\$ 2,528	Sales comparison approach	Adjustment for physical condition of comparable properties sold	22% - 76% (55%)

The carrying amounts and estimated fair values of the Company's financial instruments not previously presented are provided in the tables below for the periods ending December 31, 2019 and 2018. Not all of the Company's assets and liabilities are considered financial instruments, and therefore are not included in the tables. Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates were based on subjective judgments, and therefore cannot be determined.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 15 – Fair Value (continued)

with precision. In accordance with the adoption of ASU 2016-01, the table below presents the fair values measured using an exit price notion.

Fair Value Measurements at December 31, 2019 Using					
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 103,884	\$ 59,971	\$ 43,913	\$ —	\$ 103,884
Interest Bearing Time Deposits with Banks	1,985	—	1,985	—	1,985
Loans, Net	3,058,211	—	—	3,056,521	3,056,521
Accrued Interest Receivable	18,425	—	4,400	14,025	18,425
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(2,798,625)	(2,798,625)	—	—	(2,798,625)
Time Deposits	(631,396)	—	(624,666)	—	(624,666)
Short-term Borrowings	(167,736)	(128,311)	(39,425)	—	(167,736)
Long-term Debt	(181,950)	—	(127,174)	(55,234)	(182,408)
Accrued Interest Payable	(2,442)	—	(2,376)	(66)	(2,442)
Fair Value Measurements at December 31, 2018 Using					
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 96,550	\$ 64,549	\$ 32,001	\$ —	\$ 96,550
Interest Bearing Time Deposits with Banks	250	—	250	—	250
Loans, Net	2,707,498	—	—	2,689,393	2,689,393
Accrued Interest Receivable	16,634	—	4,143	12,491	16,634
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(2,484,149)	(2,484,149)	—	—	(2,484,149)
Time Deposits	(588,483)	—	(586,338)	—	(586,338)
Short-term Borrowings	(249,774)	(204,500)	(45,274)	—	(249,774)
Long-term Debt	(126,635)	—	(117,513)	(11,315)	(128,828)
Accrued Interest Payable	(1,740)	—	(1,718)	(22)	(1,740)

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 16 – Segment Information

The Company's operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial and agricultural, commercial and agricultural real estate, and residential mortgage loans, primarily in the Company's local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the Company's banking subsidiary's local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bank, which operated through 76 banking offices at December 31, 2019. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

The following segment financial information has been derived from the internal financial statements of the Company which are used by management to monitor and manage financial performance. The accounting policies of the three segments are the same as those of the Company. The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the column labeled "Other" below, along with amounts to eliminate transactions between segments.

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Year Ended December 31, 2019					
Net Interest Income	\$ 147,735	\$ 15	\$ 18	\$ (2,543)	\$ 145,225
Net Gains on Sales of Loans	4,633	—	—	—	4,633
Net Gains on Securities	1,248	—	—	—	1,248
Trust and Investment Product Fees	4	7,274	—	—	7,278
Insurance Revenues	25	28	8,887	—	8,940
Noncash Items:					
Provision for Loan Losses	5,325	—	—	—	5,325
Depreciation and Amortization	8,265	6	71	288	8,630
Income Tax Expense (Benefit)	12,724	469	511	(1,687)	12,017
Segment Profit (Loss)	58,793	1,366	1,538	(2,475)	59,222
Segment Assets at December 31, 2019	4,381,945	3,670	9,080	2,977	4,397,672
	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Year Ended December 31, 2018					
Net Interest Income	\$ 115,710	\$ 5	\$ 13	\$ (1,118)	\$ 114,610
Net Gains on Sales of Loans	3,004	—	—	—	3,004
Net Gains on Securities	706	—	—	—	706
Trust and Investment Product Fees	4	6,676	—	—	6,680
Insurance Revenues	17	40	8,273	—	8,330
Noncash Items:					
Provision for Loan Losses	2,070	—	—	—	2,070
Depreciation and Amortization	5,847	5	76	256	6,184
Income Tax Expense (Benefit)	9,671	437	440	(1,020)	9,528
Segment Profit (Loss)	46,075	1,263	1,312	(2,121)	46,529
Segment Assets at December 31, 2018	3,926,242	2,658	11,368	(11,178)	3,929,090

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 16 – Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Year Ended December 31, 2017					
Net Interest Income	\$ 100,659	\$ 6	\$ 9	\$ (765)	\$ 99,909
Net Gains on Sales of Loans	3,280	—	—	—	3,280
Net Gains on Securities	593	—	—	3	596
Trust and Investment Product Fees	3	5,272	—	(3)	5,272
Insurance Revenues	28	34	7,917	—	7,979
Noncash Items:					
Provision for Loan Losses	1,750	—	—	—	1,750
Depreciation and Amortization	4,351	4	76	256	4,687
Income Tax Expense (Benefit)	12,262	145	512	(1,385)	11,534
Segment Profit (Loss)	39,520	217	918	21	40,676
Segment Assets at December 31, 2017	3,142,096	1,987	10,078	(9,801)	3,144,360

NOTE 17 - Parent Company Financial Statements

The condensed financial statements of German American Bancorp, Inc. are presented below:

CONDENSED BALANCE SHEETS

	December 31,	
	2019	2018
ASSETS		
Cash	\$ 42,738	\$ 17,868
Other Investments	353	353
Investment in Subsidiary Bank	577,332	469,919
Investment in Non-banking Subsidiaries	5,904	5,394
Other Assets	7,954	7,324
Total Assets	\$ 634,281	\$ 500,858
LIABILITIES		
Borrowings	\$ 54,996	\$ 36,487
Other Liabilities	5,465	5,731
Total Liabilities	60,461	42,218
SHAREHOLDERS' EQUITY		
Common Stock	26,671	24,967
Additional Paid-in Capital	278,954	229,347
Retained Earnings	253,090	211,424
Accumulated Other Comprehensive Income (Loss)	15,105	(7,098)
Total Shareholders' Equity	573,820	458,640
Total Liabilities and Shareholders' Equity	\$ 634,281	\$ 500,858

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 17 – Parent Company Financial Statements (continued)

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2019	2018	2017
INCOME			
Dividends from Subsidiaries			
Bank	\$ 45,000	\$ 7,000	\$ 25,000
Non-bank	1,400	1,200	975
Interest Income	102	38	34
Other Income (Loss)	(2)	(13)	25
Total Income	46,500	8,225	26,034
EXPENSES			
Salaries and Employee Benefits	530	576	533
Professional Fees	1,685	2,079	602
Occupancy and Equipment Expense	7	7	7
Interest Expense	2,781	1,279	877
Other Expenses	975	813	794
Total Expenses	5,978	4,754	2,813
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	40,522	3,471	23,221
Income Tax Benefit	1,712	1,042	1,415
INCOME BEFORE EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	42,234	4,513	24,636
Equity in Undistributed Income of Subsidiaries	16,988	42,016	16,040
NET INCOME	59,222	46,529	40,676
Other Comprehensive Income:			
Changes in Unrealized Gain (Loss) on Securities, Available-for-Sale	22,432	(4,424)	4,391
Changes in Unrecognized Loss in Postretirement Benefit Obligation, Net	(229)	(54)	(138)
TOTAL COMPREHENSIVE INCOME	\$ 81,425	\$ 42,051	\$ 44,929

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 17 – Parent Company Financial Statements (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 59,222	\$ 46,529	\$ 40,676
Adjustments to Reconcile Net Income to Net Cash from Operations			
Change in Other Assets	31	1,588	431
Change in Other Liabilities	(406)	(163)	(122)
Equity Based Compensation	1,287	1,355	1,246
Excess Tax Benefit from Restricted Share Grant	25	32	240
Equity in Excess Undistributed Income of Subsidiaries	(16,988)	(42,016)	(16,040)
Net Cash from Operating Activities	43,171	7,325	26,431
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Used for Business Acquisitions	(14,958)	(25,160)	—
Net Cash from Investing Activities	(14,958)	(25,160)	—
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issuance of Long-term Debt	39,213	25,000	—
Repayment of Long-term Debt	(25,000)	—	—
Issuance (Retirement) of Common Stock	—	—	(29)
Dividends Paid	(17,556)	(14,074)	(11,842)
Net Cash from Financing Activities	(3,343)	10,926	(11,871)
Net Change in Cash and Cash Equivalents	24,870	(6,909)	14,560
Cash and Cash Equivalents at Beginning of Year	17,868	24,777	10,217
Cash and Cash Equivalents at End of Year	\$ 42,738	\$ 17,868	\$ 24,777

NOTE 18 - Business Combinations, Goodwill and Intangible Assets

Business Combinations

Citizens First Acquisition

Effective July 1, 2019, the Company acquired Citizens First Corporation (“Citizens First”) and its subsidiary, Citizens First Bank, Inc., pursuant to an Agreement and Plan of Reorganization dated February 22, 2019. The acquisition was accomplished by the merger of Citizens First with and into the Company, immediately followed by the merger of Citizens First Bank with and into the Company’s subsidiary bank, German American Bank. Citizens First Bank operated 8 banking offices in Barren, Hart, Simpson and Warren Counties in Kentucky. Citizens First's consolidated assets and equity (unaudited) as of July 1, 2019 totaled \$456.0 million and \$49.8 million, respectively. The Company accounted for the transaction under the acquisition method of accounting which means that the acquired assets and liabilities were recorded at fair value at the date of acquisition. The fair value estimates included in these financial statements are based on preliminary valuations; certain loan and deferred tax measurements have not been finalized and are subject to change. The Company does not expect material variances from these estimates and expects that final valuation estimates will be completed prior to June 30, 2020.

In accordance with ASC 805, the Company has expensed approximately \$3.3 million of direct acquisition costs and recorded \$17.1 million of goodwill and \$4.5 million of intangible assets. The intangible assets are related to core deposits and are being amortized over 8 years. For tax purposes, goodwill totaling \$17.1 million is non-deductible but will be evaluated annually for impairment. The following table summarizes the fair value of the total consideration transferred as a part of the Citizens First acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 18 – Business Combinations, Goodwill and Intangible Assets (continued)

Consideration	
Cash for Options and Fractional Shares	\$ 216
Cash Consideration	15,294
Equity Instruments	50,118
Fair Value of Total Consideration Transferred	\$ 65,628
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:	
Cash	\$ 21,055
Interest-bearing Time Deposits with Banks	2,231
Securities	43,839
Loans	356,970
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	2,065
Premises, Furniture & Equipment	10,772
Other Real Estate	—
Intangible Assets	4,547
Company Owned Life Insurance	8,796
Accrued Interest Receivable and Other Assets	3,863
Deposits - Non-interest Bearing	(52,521)
Deposits - Interest Bearing	(318,966)
FHLB Advances and Other Borrowings	(31,068)
Accrued Interest Payable and Other Liabilities	(3,044)
Total Identifiable Net Assets	\$ 48,539
Goodwill	\$ 17,089

Under the terms of the merger agreement, each Citizens First common shareholder of record at the effective time of the merger (other than those holding shares in the Citizens First Bank 401(k) Profit Sharing Plan (the "CFB 401(k) Plan")) became entitled to receive a cash payment of \$5.80 and a 0.6629 share of common stock of the Company for each of their former shares of Citizens First common stock. In addition, as record holder of shares of Citizens First common stock held in the CFB 401(k) Plan, the plan administrator was entitled to receive a cash payment of \$25.77 for each share held by the CFB 401(k) Plan, which amount is equal to (i) the exchange ratio multiplied by the closing trading price of the Company's common stock on June 28, 2019, plus (ii) \$5.80. As a result, in connection with the closing of the merger on July 1, 2019, the Company issued approximately 1,664,000 shares of its common stock to the former shareholders of Citizens First and paid cash consideration in the aggregate amount of \$15.5 million.

This acquisition is consistent with the Company's strategy to build a regional presence in central and western Kentucky. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which are loans that have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value of \$349.9 million and unpaid principal of \$353.3 million on the date of acquisition.

The following table presents unaudited pro forma information as if the acquisition had occurred on January 1, 2018 after giving effect to certain adjustments. The unaudited pro forma information for the years ended December 31, 2019 and 2018 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 18 – Business Combinations, Goodwill and Intangible Assets (continued)

	Unaudited Pro Forma Year Ended 12/31/2019	Unaudited Pro Forma Year Ended 12/31/2018
Net Interest Income	\$ 155,439	\$ 134,129
Non-interest Income	46,857	40,678
Total Revenue	202,296	174,807
Provision for Loan Losses Expense	5,648	2,070
Non-interest Expense	116,083	107,995
Income Before Income Taxes	80,565	64,742
Income Tax Expense	14,358	11,281
Net Income	\$ 66,207	\$ 53,461
Earnings Per Share and Diluted Earnings Per Share	\$ 2.48	\$ 2.13

The above pro forma financial information includes approximately \$6,624 of net income and \$18,436 of total revenue related to the operations of Citizens First during the year ended 2019. The above pro forma financial information related to 2019 excludes non-recurring merger costs that totaled \$3,205 on a pre-tax basis for the year ended December 2019. The above pro forma financial information excludes the Citizens First provision for loan loss recognized during the year ended 2019. Under acquisition accounting treatment, loans are recorded at fair value which includes a credit risk component, and therefore the provision for loan loss recognized during the year ended December 31, 2018 was presumed to not be necessary.

First Security Acquisition

Effective October 15, 2018, the Company acquired First Security, Inc. ("First Security") and its subsidiary, First Security Bank, Inc., pursuant to an Agreement and Plan of Reorganization dated May 22, 2018. The acquisition was accomplished by the merger of First Security with and into the Company, immediately followed by the merger of First Security Bank with and into the Company's bank subsidiary, German American Bank. First Security Bank operated 11 banking offices in Owensboro, Bowling Green, Franklin and Lexington, Kentucky and in Evansville and Newburgh, Indiana. First Security's consolidated assets and equity (unaudited) as of October 14, 2018 totaled \$563.0 million and \$58.3 million, respectively. The Company accounted for the transaction under the acquisition method of accounting which means that the acquired assets and liabilities were recorded at fair value at the date of acquisition.

In accordance with ASC 805, the Company has expensed approximately \$4.0 million of direct acquisition costs and recorded \$43.2 million of goodwill and \$6.1 million of intangible assets. The intangible assets are related to core deposits and are being amortized over 8 years. For tax purposes, goodwill totaling \$43.2 million is non-deductible but will be evaluated annually for impairment. The following table summarizes the fair value of the total consideration transferred as a part of the First Security acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 18 – Business Combinations, Goodwill and Intangible Assets (continued)

Consideration		
Cash for Options and Fractional Shares	\$	132
Cash Consideration		31,039
Equity Instruments		64,898
Fair Value of Total Consideration Transferred	\$	96,069
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:		
Cash	\$	13,605
Interest-bearing Time Deposits with Banks		250
Securities		109,580
Loans		390,106
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost		2,607
Premises, Furniture & Equipment		11,149
Other Real Estate		468
Intangible Assets		6,139
Company Owned Life Insurance		13,135
Accrued Interest Receivable and Other Assets		6,126
Deposits - Non-interest Bearing		(66,112)
Deposits - Interest Bearing		(358,285)
FHLB Advances and Other Borrowings		(73,275)
Accrued Interest Payable and Other Liabilities		(2,618)
Total Identifiable Net Assets	\$	52,875
Goodwill	\$	43,194

Under the terms of the merger agreement, the Company issued approximately 1,988,000 shares of its common stock to the former shareholders of First Security. Each First Security common shareholder of record at the effective time of the merger (other than those holding shares in the First Security, Inc. 401k and Employee Stock Ownership Plan (the "First Security KSOP")) became entitled to receive 0.7982 shares of common stock of the Company for each of their former shares of First Security common stock.

In connection with the closing of the merger, the Company paid to First Security's shareholders of record at the close of business on October 14, 2018, cash consideration of \$12.00 per First Security share, other than First Security KSOP shares (an aggregate of \$29,886 to shareholders), and cash consideration of \$40.00 per First Security KSOP share (an aggregate of \$1,153), and the Company paid approximately \$124 to persons who held options to purchase First Security common stock (all of which rights were canceled at the effective time of the merger and were not assumed by the Company).

This acquisition was consistent with the Company's strategy to build a regional presence in Southern Indiana and Kentucky. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which are loans that have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value of \$382.4 million and unpaid principal of \$385.4 million on the date of acquisition.

Branch Acquisition

On May 18, 2018, German American Bank completed the acquisition of five branch locations of First Financial Bancorp (formerly branch locations of Mainsource Financial Group, Inc. prior to its merger with First Financial Bancorp on April 1, 2018) and certain related assets, and the assumption by German American Bank of certain related liabilities. Four of the branches are located in Columbus, Indiana, and one in Greensburg, Indiana. At the time of closing, German American Bank acquired approximately \$175.7 million in deposits and approximately \$116.3 million in loans associated with the five bank branches. The premium paid

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 18 – Business Combinations, Goodwill and Intangible Assets (continued)

on deposits by German American Bank was approximately \$7.4 million. The premium was subject to adjustment to reflect increases or decreases in the deposit balances during the six month period following the closing date. In January 2019, an adjustment of approximately \$0.1 million in additional premium was paid by German American Bank as a result of the change in deposits during the six month measurement period. German American Bank also had the ability, under certain circumstances, to put loans back to First Financial Bancorp's bank subsidiary during such six month period. During the fourth quarter of 2018, approximately \$1.3 million of loans were put back by German American Bank. The Company accounted for the transaction under the acquisition method of accounting, which means that the acquired assets and liabilities were recorded at fair value at the date of acquisition.

This branch acquisition was consistent with the Company's strategy to continue building its regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

In accordance with ASC 805, the Company has expensed approximately \$691 of direct acquisition costs and recorded \$7.0 million of goodwill and \$3.5 million of intangible assets. The intangible assets are related to core deposits and are being amortized over 8 years. For tax purposes, goodwill totaling \$7.0 million is tax deductible and will be amortized over 15 years. The following table summarizes the fair value of the total cash received as part of the branch acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

Total Cash Received from First Financial	\$	41,826
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:		
Cash	\$	756
Loans		116,305
Premises, Furniture & Equipment		5,666
Intangible Assets		3,475
Accrued Interest Receivable and Other Assets		780
Deposits - Non-interest Bearing		(39,607)
Deposits - Interest Bearing		(136,096)
Accrued Interest Payable and Other Liabilities		(70)
Total Identifiable Net Assets	\$	(48,791)
Goodwill	\$	6,965

Insurance Agency Acquisition

On January 1, 2017, the Company acquired certain assets of an existing insurance agency office located in Madison, Indiana. The assets became a part of German American Insurance, Inc., the Company's property and casualty insurance entity.

The purchase price of this transaction was \$209 in cash and resulted in \$209 in customer list intangible. The customer relationship intangible is being amortized over seven years utilizing the straight-line method and deducted for tax purposes over 15 years using the straight-line method.

Goodwill

The changes in the carrying amount of goodwill for the periods ended December 31, 2019, 2018, and 2017, were classified as follows:

	2019	2018	2017
Beginning of Year	\$ 103,681	\$ 54,058	\$ 54,058
Acquired Goodwill	17,625	49,623	—
Impairment	—	—	—
End of Year	\$ 121,306	\$ 103,681	\$ 54,058

Of the \$121,306 carrying amount of goodwill, \$119,974 is allocated to the core banking segment, and \$1,332 is allocated to the insurance segment for the period ended December 31, 2019. Of the \$103,681 carrying amount of goodwill, \$102,349 is allocated to the core banking segment, and \$1,332 is allocated to the insurance segment for the period ended December 31, 2018. Of the

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 18 – Business Combinations, Goodwill and Intangible Assets (continued)

\$54,058 carrying amount of goodwill, \$52,726 is allocated to the core banking segment and \$1,332 is allocated to the insurance segment for the period ended December 31, 2017.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2019, the Company's reporting units had positive equity, and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting units exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value.

Acquired Intangible Assets

Acquired intangible assets were as follows as of year end:		2019	
		Gross Amount	Accumulated Amortization
Core Banking			
Core Deposit Intangible	\$	25,780	\$ (15,110)
Branch Acquisition Intangible		257	(257)
Insurance			
Customer List		5,408	(5,288)
Total	\$	31,445	\$ (20,655)

Acquired intangible assets were as follows as of year end:		2018	
		Gross Amount	Accumulated Amortization
Core Banking			
Core Deposit Intangible	\$	21,231	\$ (11,418)
Branch Acquisition Intangible		257	(257)
Insurance			
Customer List		5,408	(5,259)
Total	\$	26,896	\$ (16,934)

Amortization Expense was \$3,721, \$1,752 and \$942, for 2019, 2018 and 2017, respectively.

Estimated amortization expense for each of the next five years is as follows:

2020	\$	3,539
2021		2,745
2022		1,990
2023		1,337
2024		751

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 19 – Other Comprehensive Income (Loss)

The tables below summarize the changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2019 and 2018, net of tax:

December 31, 2019	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance	\$ (6,759)	\$ (339)	\$ (7,098)
Other Comprehensive Income (Loss) Before Reclassification	23,418	(256)	23,162
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(986)	27	(959)
Net Current Period Other			
Comprehensive Income (Loss)	22,432	(229)	22,203
Ending Balance	\$ 15,673	\$ (568)	\$ 15,105

December 31, 2018	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance	\$ (2,335)	\$ (285)	\$ (2,620)
Other Comprehensive Income (Loss) Before Reclassification	(3,866)	(77)	(3,943)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(558)	23	(535)
Net Current Period Other			
Comprehensive Income (Loss)	(4,424)	(54)	(4,478)
Ending Balance	\$ (6,759)	\$ (339)	\$ (7,098)

The table below summarizes the classifications out of accumulated other comprehensive income (loss) by component for the year ended December 31, 2019:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on		
Available-for-Sale Securities	\$ 1,248	Net Gain (Loss) on Securities
	(262)	Income Tax Expense
	986	Net of Tax
Amortization of Post Retirement Plan Items		
Actuarial Gains (Losses)	\$ (37)	Salaries and Employee Benefits
	10	Income Tax Expense
	(27)	Net of Tax
Total Reclassifications for the Period	\$ 959	

Notes to the Consolidated Financial Statements

Dollars in thousands, except per share data

NOTE 19 – Other Comprehensive Income (Loss) (continued)

The table below summarizes the classifications out of accumulated other comprehensive income (loss) by component for the year ended December 31, 2018:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on		
Available-for-Sale Securities	\$ 706	Net Gain (Loss) on Securities
	(148)	Income Tax Expense
	558	Net of Tax
Amortization of Post Retirement Plan Items		
Actuarial Gains (Losses)	\$ (32)	Salaries and Employee Benefits
	9	Income Tax Expense
	(23)	Net of Tax
Total Reclassifications for the Period	\$ 535	

The table below summarizes the classifications out of accumulated other comprehensive income (loss) by component for the year ended December 31, 2017:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on		
Available-for-Sale Securities	\$ 596	Net Gain (Loss) on Securities
	(209)	Income Tax Expense
	387	Net of Tax
Amortization of Post Retirement Plan Items		
Actuarial Gains (Losses)	\$ (8)	Salaries and Employee Benefits
	3	Income Tax Expense
	(5)	Net of Tax
Total Reclassifications for the Period	\$ 382	

NOTE 20 – Quarterly Financial Data (Unaudited)

The following table represents selected quarterly financial data for the Company:

	Interest Income	Net Interest Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
2019					
First Quarter	\$ 41,189	\$ 33,591	\$ 15,067	\$ 0.60	\$ 0.60
Second Quarter	41,036	33,641	15,271	0.61	0.61
Third Quarter	46,911	38,578	13,064	0.49	0.49
Fourth Quarter	47,338	39,415	15,820	0.59	0.59
2018					
First Quarter	\$ 29,145	\$ 25,610	\$ 11,813	\$ 0.51	\$ 0.51
Second Quarter	31,533	27,469	11,097	0.48	0.48
Third Quarter	33,475	28,548	12,639	0.55	0.55
Fourth Quarter	39,596	32,983	10,980	0.44	0.44

NOTE 21 - Subsequent Events

On January 27, 2020, the Company's Board of Directors approved a plan to repurchase up to one million shares of the Company's outstanding common stock. On a share basis, the amount of common stock subject to the repurchase plan represents approximately 4% of the Company's outstanding shares. The Company is not obligated to purchase any shares under the plan, and the plan may be discontinued at any time. The actual timing, number and share price of shares purchased under the repurchase plan will be determined by the Company at its discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. At the time it approved the new plan, the Board also terminated a similar program that had been adopted in 2001. At the time of its termination, the Company had been authorized to purchase up to 409,184 shares of common stock under the 2001 program. The Company has not repurchased any shares of common stock under the 2020 repurchase plan.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of December 31, 2019, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

Changes in Internal Control Over Financial Reporting in Most Recent Fiscal Quarter

There was no change in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2019.

The Company's independent registered public accounting firm has issued their report on the Company's internal control over financial reporting. That report is included in Item 8. Financial Statements and Supplementary Data of this Report under the heading, Report of Independent Registered Public Accounting Firm.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

Information responsive to this Item 10 will be included under the captions “Election of Directors,” “Our Executive Officers” and “Section 16(a): Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for the Annual Meeting of Shareholders to be held in May 2020 which will be filed within 120 days of the end of the fiscal year covered by this Report (the “2020 Proxy Statement”), which sections are incorporated herein by reference.

Item 11. Executive Compensation.

Information relating to compensation of the Company’s executive officers and directors (including the required disclosures under the subheadings “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report”) will be included under the caption “Executive and Director Compensation” in the 2020 Proxy Statement, which section is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required under this Item 12 relating to equity compensation plans is set forth under the heading “Equity Compensation Plan Information” in Part II, Item 5 of this Report. Information relating to security ownership of certain beneficial owners and the directors and executive officers of the Company will be included under the captions “Ownership of Our Common Shares by Our Directors and Executive Officers” and “Principal Owners of Common Shares” of the 2020 Proxy Statement, which sections are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information responsive to this Item 13 will be included under the captions “Election of Directors” and “Transactions with Related Persons” of the 2020 Proxy Statement, which sections are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information responsive to this Item 14 will be included in the 2020 Proxy Statement under the caption “Principal Accountant Fees and Services”, which section is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

The following items are included in Item 8 of this Report:

German American Bancorp, Inc. and Subsidiaries:	Page #
Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets at December 31, 2019 and 2018	51
Consolidated Statements of Income, years ended December 31, 2019, 2018 and 2017	52
Consolidated Statements of Comprehensive Income, years ended December 31, 2019, 2018 and 2017	53
Consolidated Statements of Changes in Shareholders' Equity, years ended December 31, 2019, 2018 and 2017	54
Consolidated Statements of Cash Flows, years ended December 31, 2019, 2018 and 2017	55
Notes to the Consolidated Financial Statements	56

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

The following exhibits are included with this report or incorporated herein by reference:

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization by and among German American Bancorp, Inc., German American Bank, Citizens First Corporation and Citizens First Bank, Inc., dated as of February 21, 2019, is incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 22, 2019 (SEC File No. 001-15877).
3.1	Restatement of the Articles of Incorporation of the Registrant is incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed May 9, 2017 (SEC File No. 001-15877).
3.2	Amended and Restated Bylaws of German American Bancorp, Inc. are incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed October 4, 2019 (SEC File No. 001-15877).
4.1	No long-term debt instrument issued by the Registrant exceeds 10% of consolidated total assets or is registered. In accordance with paragraph 4 (iii) of Item 601(b) of Regulation S-K, to the extent not otherwise filed herewith or incorporated by reference hereby, the Registrant will furnish the Securities and Exchange Commission copies of long-term debt instruments and related agreements upon request.
4.2	Terms of Common Shares and Preferred Shares of the Registrant (included in Restatement of Articles of Incorporation) are incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed May 9, 2017 (SEC File No. 001-15877).
4.3	Specimen stock certificate for Common Shares of the Registrant is incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 21, 2010 (SEC File No. 001-15877).
4.4	Indenture, dated as of June 25, 2019, by and between German American Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).
4.5	Form of 4.50% Fixed-to-Floating Subordinated Note due 2029 of German American Bancorp, Inc. is incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).
4.6+	Description of the securities of German American Bancorp, Inc. registered pursuant to Section 12 of the Exchange Act.
10.1*	Form of Director Deferred Compensation Agreement between The German American Bank and certain of its Directors is incorporated herein by reference from Exhibit 10.4 to the Registrant's Registration Statement on Form S-4 filed January 21, 1993 (the Agreement entered into by former director George W. Astrike, a copy of which was filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-4 filed January 21, 1993, is substantially identical to the Agreements entered into by the other Directors, some of whom remain directors of the Registrant). The schedule following such Exhibit 10.4 lists the Agreements with the other Directors and sets forth the material detail in which such Agreements differ from the Agreement filed as such Exhibit 10.4.
10.2*	Second Amendment, effective as of December 18, 2017, to the Director Deferred Compensation Agreement, dated December 8, 1992, between German American Bancorp and Mark A. Schroeder, as amended, is incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 20, 2017 (SEC File No. 001-15877).
10.3*+	Adoption Agreement for the German American Bancorp, Inc. Nonqualified Savings Plan, effective January 1, 2009.
10.4*+	Basic Plan Document for the German American Bancorp, Inc. Nonqualified Savings Plan, effective January 1, 2009.
10.5*+	First Amendment to the German American Bancorp, Inc. Nonqualified Savings Plan, effective January 1, 2020.
10.6*	German American Bancorp, Inc., 2009 Long Term Equity Incentive Plan. This exhibit is incorporated by reference from Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (No. 333-160749) filed July 23, 2009.
10.7*	German American Bancorp, Inc., 2009 Employee Stock Purchase Plan. This exhibit is incorporated by reference from Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 (No. 333-160749) filed July 23, 2009.
10.8.A*	Description of Director Compensation Arrangements for the 12 month period ending on June 30, 2018 is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed June 29, 2017 (SEC File No. 001-15877).
10.8.B*	Description of Additional Director Compensation Arrangements for the 12 month period ending on June 30, 2018 (Restricted Stock Awards) is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed December 20, 2017 (SEC File No. 001-15877).

Exhibit No.	Description
<u>10.9.A*</u>	<u>Description of Director Compensation Arrangements for the 12 month period ending on June 30, 2019 is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed June 29, 2018 (SEC File No. 001-15877).</u>
<u>10.9.B*</u>	<u>Description of Additional Director Compensation Arrangements for the 12 month period ending on June 30, 2019 (Restricted Stock Awards) is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed December 18, 2018 (SEC File No. 001-15877).</u>
<u>10.10.A*</u>	<u>Description of Director Compensation Arrangements for the 12 month period ending on June 30, 2020 is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed July 11, 2019 (SEC File No. 001-15877).</u>
<u>10.10.B*</u>	<u>Description of Additional Director Compensation Arrangements for the 12 month period ending on June 30, 2020 (Restricted Stock Awards) is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed December 18, 2019 (SEC File No. 001-15877).</u>
<u>10.11*</u>	<u>Description of Executive Management Incentive Plan for 2017 (awards payable in 2018) is incorporated by reference from the description contained in Item 5.02 of the Registrant's Current Report on Form 8-K filed March 9, 2017 (SEC File No. 001-15877).</u>
<u>10.12*</u>	<u>Description of Executive Management Incentive Plan for 2018 (awards payable in 2019) is incorporated by reference from the description contained in Item 5.02 of the Registrant's Current Report on Form 8-K filed March 2, 2018 (SEC File No. 001-15877).</u>
<u>10.13*</u>	<u>Description of Executive Management Incentive Plan for 2019 (awards payable in 2020) is incorporated by reference from the description contained in Item 5.02 of the Registrant's Current Report on Form 8-K filed May 3, 2019 (SEC File No. 001-15877).</u>
<u>10.14*</u>	<u>Executive Supplemental Retirement Income Agreement dated October 1, 1996, between First Federal Bank, F.S.B. and Bradley M. Rust, as amended by a First Amendment between Bradley M. Rust and the Registrant dated December 30, 2008, is incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed March 10, 2010 (SEC File No. 001-15877).</u>
<u>10.15*</u>	<u>Supplemental Executive Retirement Agreement between German American Bancorp and Keith A. Leinenbach, dated August 31, 2017, is incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 5, 2017 (SEC File No. 001-15877).</u>
<u>10.16*</u>	<u>Form of LTI Restricted Stock Award Agreement that evidences the terms of restricted stock awards granted to executive officers under the 2009 Long-Term Equity Incentive Plan in conjunction with the Management Long-Term Incentive Plan from time to time in effect. This exhibit is incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed March 16, 2017 (SEC File No. 001-15877).</u>
<u>10.17*+</u>	<u>Form of LTI Restricted Stock Award Agreement that evidences the terms of restricted stock awards granted to executive officers under the 2019 Long-Term Equity Incentive Plan in conjunction with the Management Long-Term Incentive Plan from time to time in effect.</u>
<u>10.18*+</u>	<u>Form of Restricted Stock Award Agreement that evidences the terms of awards of restricted stock grants granted under the 2019 Long-Term Equity Incentive Plan to certain Directors in December 2019.</u>
<u>10.19*</u>	<u>German American Bancorp, Inc. 2019 Employee Stock Purchase Plan is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed May 21, 2019 (SEC File No. 000-15877).</u>
<u>10.20*</u>	<u>German American Bancorp, Inc. 2019 Long-Term Equity Incentive Plan is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed May 21, 2019 (SEC File No. 000-15877).</u>
<u>21+</u>	<u>Subsidiaries of the Registrant</u>
<u>23+</u>	<u>Consent of Crowe LLP</u>
<u>31.1+</u>	<u>Sarbanes-Oxley Act of 2002, Section 302 Certification for President and Chief Executive Officer.</u>
<u>31.2+</u>	<u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President (Principal Financial Officer).</u>
<u>32.1++</u>	<u>Sarbanes-Oxley Act of 2002, Section 906 Certification for President and Chief Executive Officer.</u>
<u>32.2++</u>	<u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President (Principal Financial Officer).</u>
101.INS+	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)
101.SCH+	Inline XBRL Taxonomy Extension Schema Document.
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Exhibits that describe or evidence all management contracts or compensatory plans or arrangements required to be filed as exhibits to this Report are indicated by an asterisk.

+ Exhibits that are filed with this Report (other than through incorporation by reference to other disclosures or exhibits) are indicated by a plus sign.

++ Exhibits that are furnished with this Report are indicated by a double plus sign.

In reviewing any agreements included as exhibits to this Report, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by the parties to the agreements, including us. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Item 16. Form 10-K Summary.

Not applicable.

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GERMAN AMERICAN BANCORP, INC.

(Registrant)

Date: March 2, 2020

By: /s/Mark A. Schroeder

Mark A. Schroeder, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 2, 2020

/s/Mark A. Schroeder

Mark A. Schroeder, Chairman and
Chief Executive Officer (principal executive officer)

Date: March 2, 2020

/s/Zachary W. Bawel

Zachary W. Bawel, Director

Date: March 2, 2020

/s/Christina M. Ernst

Christina M. Ernst, Director

Date: March 2, 2020

/s/Marc D. Fine

Marc D. Fine, Director

Date: March 2, 2020

/s/Jason M. Kelly

Jason M. Kelly, Director

Date: March 2, 2020

/s/U. Butch Klem

U. Butch Klem, Director

Date: March 2, 2020

/s/J. David Lett

J. David Lett, Director

Date: March 2, 2020

/s/Lee A. Mitchell

Lee A. Mitchell, Director

Date: March 2, 2020

/s/Chris A. Ramsey

Chris A. Ramsey, Director

Date: March 2, 2020

/s/M. Darren Root

M. Darren Root, Director

Date: March 2, 2020

/s/Christina M. Ryan

Christina M. Ryan, Director

Date: March 2, 2020

/s/Thomas W. Seger

Thomas W. Seger, Director

Date: March 2, 2020

/s/Jack W. Sheidler

Jack W. Sheidler, Director

Date: March 2, 2020

/s/Raymond W. Snowden

Raymond W. Snowden, Director

Date: March 2, 2020

/s/Tyson J. Wagler

Tyson J. Wagler, Director

Date: March 2, 2020

/s/Bradley M. Rust

Bradley M. Rust, Executive Vice President and Chief Financial Officer (principal accounting officer and principal financial officer)

Exhibit 4.6

Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934

Common Stock

The following summary of the common stock of German American Bancorp, Inc. (the "Company") is based on and qualified by the Company's Articles of Incorporation and Bylaws. For a complete description of the terms and provisions of the Company's capital stock, including its common stock, refer to the Company's Articles of Incorporation and Bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K.

Authorized Capital Shares

The total number of shares of common stock that the Company is authorized to issue is 45,000,000, all with no par value. The total number of shares of preferred stock that the Company is authorized to issue is 750,000, all with no par value. The outstanding shares of the Company's common stock are fully paid and non-assessable. There are no shares of preferred stock currently outstanding.

Voting Rights

Each share of the Company's common stock is entitled to one vote. Directors are elected by a plurality of the votes cast by the shares entitled to vote in an election at a shareholder's meeting at which a quorum is present. Shareholders do not have a right to cumulate their votes for directors. The affirmative vote of a majority of the shares present and voting at a meeting of shareholders, in person or by proxy, is required for approval of all items submitted to the shareholders for consideration other than (i) the election of directors, as described above, which is based on a plurality of votes cast, (ii) the removal of directors, which requires the affirmative vote of the holders of not less than 80% of the voting shares of the Company, (iii) certain amendments to the Company's Articles of Incorporation, as described below under "Articles of Incorporation and Bylaw Amendments," which require a greater percentage, and (iv) certain transactions involving one or more shareholders owning, directly or indirectly, not less than ten percent (10%) of the Company's voting shares (see "Anti-Takeover Provisions - Transactions with Interested Security Holders" below), which, in such cases, require the affirmative vote of the holders of not less than 80% of the voting shares of the Company.

Dividend Rights

The holders of the Company's common stock are entitled to dividends and other distributions when, as and if declared by the Board of Directors of the Company (the "Board").

Generally, the Company may not pay a dividend if, after giving effect to the dividend:

- the Company would not be able to pay its debts as they become due in the usual course of business; or
- the Company's total assets would be less than its total liabilities (without regards to the amounts that would be needed to satisfy preferential rights of shareholders payable upon dissolution).
-

The Company's principal source of funds for dividend payments to shareholders is dividends received from German American Bank, the Company's wholly-owned bank subsidiary. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to a bank's retained net income (as defined in the regulations) for the current year plus those for the previous two years. German American Bank will ordinarily be restricted to paying dividends in a lesser amount to the Company than is legally permissible because of the need for banks to maintain adequate capital consistent with the capital adequacy guidelines promulgated by the banks' principal federal regulatory authorities. If a bank's capital levels are deemed inadequate by the regulatory authorities, payment of dividends to its parent holding company may be prohibited. German American Bank is not currently subject to such a restriction.

Redemption

Under Indiana law, the Company may only redeem or acquire shares of its common stock with funds legally available therefor, and shares so acquired constitute authorized but unissued shares. The Company may not redeem or acquire its shares of common stock if, after such redemption, it would not be able to pay its debts as they become due. Additionally, the Company may not redeem its shares if its total assets would be less than its total liabilities (without regards to the amounts that would be needed to satisfy preferential rights of shareholders payable upon dissolution).

Liquidation Rights

In the event of any liquidation or dissolution of the Company, its shareholders are entitled to receive pro rata, according to the number of shares held, any assets distributable to shareholders, subject to the payment of Company's liabilities and any rights of creditors and holders of shares of Company's preferred stock then outstanding.

Preemptive Rights

The Company's Articles of Incorporation do not provide for preemptive rights for shareholders to subscribe for any new or additional shares of common stock.

Removal of Directors

The Company's Articles of Incorporation and Bylaws provide that any director or all directors may be removed, with or without cause, at a meeting of shareholders upon the vote of the holders of not less 80% of the outstanding shares of capital stock entitled to vote on the election of directors. Amendment of this provision of the Company's Articles of Incorporation also requires the affirmative vote of at least 80% of the outstanding shares of stock of the Company entitled to vote on such amendment.

Classification of the Board

The Company's Bylaws provide that the directors of the Board shall be divided into three classes, with the number of directors in each class being as nearly equal as possible and the term for one class expiring at each annual meeting of shareholders (i.e., directors generally serve three-year staggered terms). Vacancies occurring between annual meetings caused by a director's resignation, death or other incapacity, or by an increase in the number of directors, may be filled by a majority vote of the remaining members of the Board. As stated above, the Company's shareholders do not have cumulative voting rights in the election of directors.

Anti-Takeover Provisions

The anti-takeover measures described below may have the effect of discouraging a person or other entity from acquiring control of the Company. These measures may have the effect of discouraging certain tender offers for shares of the Company's common stock which might otherwise be made at premium prices or certain other acquisition transactions which might be viewed favorably by a significant number of shareholders.

Transactions with Interested Security Holders

Under Indiana law, any ten percent (10%) shareholder of an Indiana corporation, with a class of voting shares registered under Section 12 of the Securities Exchange Act of 1934, as amended, such as the Company, is prohibited for a period of five (5) years from completing a business combination with the corporation unless, prior to the acquisition of such ten percent (10%) interest, the Board approved either the acquisition of such interest or the proposed business combination. If such prior approval is not obtained, the corporation and a ten percent (10%) shareholder may not consummate a business combination unless all provisions of the articles of incorporation are complied with and either a majority of disinterested shareholders approve the transaction or all shareholders receive a price per share as determined by Indiana law. The Company's Bylaws provide that this "business combinations" provision of Indiana law does not apply to the Company.

The Company's Articles of Incorporation include a provision imposing certain supermajority vote requirements on any "business combination" with a "related person" unless the combination has been approved by the vote of two-thirds of certain members of the Board who are not associated with the related person ("independent director approval") or the combination is solely between the Company and another corporation 100% of the common stock (or other voting capital securities) of which is owned directly or indirectly by the Company (a "subsidiary combination").

This provision defines “business combination” very broadly to include, subject to certain conditions, (i) any merger or consolidation of the Company or any of its subsidiaries into or with a related person, its affiliates or associates; (ii) any sale, exchange, lease, transfer or other disposition by the Company or any of its subsidiaries of all or any substantial part of its or their assets or businesses to or with a related person, its affiliates or associates; (iii) the purchase, exchange, lease or acquisition by the Company or any of its subsidiaries of all or any substantial part of the assets or businesses of a related person, its affiliates or associates; (iv) any reclassification of securities, recapitalization or other transaction that has the effect of increasing the proportionate amount of the Company’s or a subsidiary’s common stock (or other voting capital securities) beneficially owned by a related person or any partial or complete liquidation, spinoff or split-up of the Company or any of its subsidiaries (unless approved by a majority of continuing directors); and (v) the acquisition by a related person of beneficial ownership upon issuance of common stock (or other voting capital shares) of the Company or any of its subsidiaries or any securities convertible into, or any rights, warrants or options to acquire, any such shares.

“Related person” is also defined broadly to mean any person (which includes any individual, corporation or entity other than the Company or its subsidiaries) who (i) is the beneficial owner, directly or indirectly, of 10% or more of the outstanding shares of the Company’s common stock (or other voting capital securities) (a “10% shareholder”); (ii) any person who within the preceding two-year period has been a 10% shareholder and who directly or indirectly controls, is controlled by, or is under common control with the Company; or (iii) any person who has received, other than pursuant to or in a series of transactions involving a public offering within the meaning of the Securities Act, the Company’s common stock (or other voting capital securities) that has been owned by a related person within the preceding two-year period.

In the absence of independent director approval of a combination or a combination being a subsidiary combination, a business combination with a related person would require (a) the approval of 80% of the outstanding voting stock plus (b) the approval of a majority of the outstanding shares that are not controlled by the related person. The first requirement of the preceding sentence (but not the latter requirement) is modified from an 80% to a two-thirds approval requirement for certain combinations in which (i) the consideration received meets certain fair market value standards, (ii) certain requirements are met with respect to the form and kind of consideration received, (iii) the related person meets certain requirements during the period after such related person became a related person and prior to the consummation of the combination, and (iv) a proxy statement meeting certain requirements shall have been mailed to all holders of common stock (or other voting capital securities) for the purpose of soliciting shareholder approval of the combination.

The Company’s Articles of Incorporation also include provisions requiring the Board to consider, in addition to the adequacy of the consideration to be paid in connection with a business combination and tender or exchange offer, and such other factors that it deems relevant: (i) the social and economic effects of the transaction on the Company and its subsidiaries, depositors, loan and other customers, creditors and other elements of the communities in which the Company and its subsidiaries operate or are located; (ii) the business and financial condition and earnings prospects of the acquiring person or persons, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring person or persons and their affiliates and associates, and the possible effect of such conditions upon the Company and its subsidiaries and the other elements of the communities in which the Company and its subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring person or persons and its or their management and affiliates and associates.

This business combination provision in the Company’s Articles of Incorporation requires an 80% affirmative vote of the issued and outstanding shares of the Company’s common stock entitled to vote thereon in order to be amended or repealed and, if such amendment or repeal is proposed by or on behalf of a related person, by an independent majority of shareholders.

Control Share Acquisition

In addition to the business combination provision, Indiana law contains a “control share acquisition” provision which, although different in structure from the business combination provision, may have a similar effect of discouraging or making more difficult a hostile takeover of an Indiana corporation. This provision also may have the effect of discouraging premium bids for outstanding shares.

Under this provision, unless otherwise provided in the corporation’s articles of incorporation or bylaws, if a shareholder acquires a certain amount of shares, approval of a majority of the disinterested shareholders must be obtained before the acquiring shareholder may vote the control shares. Under certain circumstances, the shares held by the acquirer may be redeemed by the corporation at the fair market value of the shares as determined by the control share acquisition provision. The control share acquisition provision does not apply to a plan of affiliation and merger if the corporation complies with the applicable merger provisions and is a party to the agreement of merger or plan of share exchange. The Company is subject to the control share acquisition provision. Further, in certain cases, the Company’s Bylaws provide it with certain redemption rights applicable to control shares.

The constitutional validity of the control share acquisition statute has been challenged in the past and has been upheld by the United States Supreme Court.

Articles of Incorporation and Bylaw Amendments

Indiana law generally requires shareholder approval for most amendments to a corporation's articles of incorporation by a majority of a quorum at a shareholder's meeting (and, in certain cases, a majority of all shares held by any voting group entitled to vote). However, Indiana law permits a corporation in its articles of incorporation to specify a higher shareholder vote requirement for certain amendments. The Company's Articles of Incorporation require (i) the affirmative vote of at least 80% of the outstanding shares of stock of the Company entitled to vote for an amendment to certain significant provisions of the Articles of Incorporation (see "Removal of Directors" and "Anti-Takeover Provisions - Transactions with Interested Security Holders" above), including the provision relating to amendments to the Articles, (ii) an independent majority of shareholders if the amendment, change or repeal is proposed by or on behalf of a related person, and (iii) a majority of the Company's outstanding shares for all other amendments.

Notwithstanding the foregoing, the above higher shareholder vote requirements will not apply to any amendment or change to, or repeal of, the Company's Articles of Incorporation if recommended to shareholders by the favorable vote of not less than two-thirds of the Board and, if the amendment, change or repeal is proposed by or on behalf of a related person, by the favorable vote of not less than two-thirds of the continuing directors, and any such amendment, change or repeal so recommended shall require only the shareholder vote required under the applicable provisions of Indiana law.

The Board has the exclusive power to make, alter, amend, or repeal, or to waive provisions of, the Company's Bylaws by the affirmative vote of a majority of the number of directors then in office.

Listing

The Company's common stock is listed for exchange on the Nasdaq Global Select Market under the symbol of "GABC." As such, the holders of the Company's common stock are generally not restricted on sales of their shares.

ECM Backend Image Cover Sheet: NQ Plans

Plan Number: 44293

Plan Name: German American Bancorp, Inc. Nonqualified Savings
Plan

Check One to Indicate Form Type:

- ☐ Prior Plan Documents (PD)
- ☒ Adoption Agreement (AA)
- ☐ Service Agreement (SA)
- ☐ Trust Agreement (TA)
- ☐ Exception Amendments (AM)
- ☐ Misc Documents (BAP Conversion)
- ☐ Board Resolution (BOD)

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EXECUTIVE PLAN

Adoption Agreement

IMPORTANT NOTE

This document has not been approved by the Department of Labor, the Internal Revenue Service or any other governmental entity. An Employer must determine whether the plan is subject to the Federal securities laws and the securities laws of the various states. An Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is "unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees" under the Employee Retirement Income Security Act with respect to the Employer's particular situation. Fidelity Management Trust Company, its affiliates and employees cannot and do not provide legal or tax advice or opinions in connection with this document. This document does not constitute legal or tax advice or opinions and is not intended or written to be used, and it cannot be used by any taxpayer, for the purposes of avoiding penalties that may be imposed on the taxpayer. This document must be reviewed by the Employer's attorney prior to adoption.

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ADOPTION AGREEMENT
ARTICLE 1

1.01 PLAN INFORMATION

(a) Name of Plan:

This is the German American Bancorp, Inc. Nonqualified Savings Plan (the "Plan").

(b) Plan Status (*Check one.*):

(1) Adoption Agreement effective date: 01/01/2009.

(2) The Adoption Agreement effective date is (*Check (A) or check and complete (B)*):

(A) ☐ A new Plan effective date.

(B) ☒ An amendment and restatement of the Plan.

(c) Name of Administrator, if not the Employer:

1.02 EMPLOYER

(a) Employer Name: German American Bancorp, Inc.

(b) The term "Employer" includes the following Related Employer(s)
(as defined in Section 2.01(a)(25)) participating in the Plan:

German American Financial Advisors & Trust Co.

German American Bancorp

German American Insurance, Inc.

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1.03 COVERAGE

(Check (a) and/or (b).)

- (a) ☒ The following Employees are eligible to participate in the Plan *(Check (1) or (2))*:

- (1) ☐ Only those Employees designated in writing by the Employer, which writing is hereby incorporated herein.
(2) ☒ Only those Employees in the eligible class described below:

Those highly compensated or management employees of the Employer who are Indiana Residents (or whose principal residences are located within the State of Indiana) and who are specifically designated from time to time by the Human Resources Committee as eligible to participate in the Plan.

- (b) ☐ The following Directors are eligible to participate in the Plan *(Check (1) or (2))*:

- (1) ☐ Only those Directors designated in writing by the Employer, which writing is hereby incorporated herein.
(2) ☐ All Directors, effective as of the later of the date in 1.01(b) or the date the Director becomes a Director.

(Note: A designation in Section 1.03(a)(1) or Section 1.03(b)(1) or a description in Section 1.03(a)(2) must include the effective date of such participation.)

1.04 COMPENSATION

(If Section 1.03(a) is selected, select (a) or (b). If Section 1.03(b) is selected, complete (c))

For purposes of determining all contributions under the Plan:

- (a) ☐ Compensation shall be as defined, with respect to Employees, in the _____ Plan maintained by the Employer:

- (1) ☐ to the extent it is in excess of the limit imposed under Code section 401(a)(17).
(2) ☐ notwithstanding the limit imposed under Code section 401(a)(17).

- (b) ☒ Compensation shall be as defined in Section 2.01(a)(9) with respect to Employees *(Check (1), and/or (2) below, if, and as, appropriate)*:

- (1) ☒ but excluding the following:

severance payments and benefits, Long Term Incentive Stock Awards, Long Term Incentive Cash Awards, and Long Term Incentive Cash Dividends.

- (2) ☒ but excluding bonuses, except those bonuses listed in the table in Section 1.05(a)(2).

- (c) ☐ Compensation shall be as defined in Section 2.01(a)(9)(c) with respect to Directors, but excluding the following:

1.05 CONTRIBUTIONS ON BEHALF OF EMPLOYEES

- (a) Deferral Contributions (*Complete all that apply*):

- (1) ☒ Deferral Contributions. Subject to any minimum or maximum deferral amount provided below, the Employer shall make a Deferral Contribution in accordance with, and subject to, Section 4.01 on behalf of each Participant who has an executed salary reduction agreement in effect with the Employer for the applicable calendar year (or portion of the applicable calendar year).

Deferral Contributions Type of Compensation	Dollar Amount		% Amount	
	Min	Max	Min	Max
Base Compensation			0	60

(Note: With respect to each type of Compensation, list the minimum and maximum dollar amounts or percentages as whole dollar amounts or whole number percentages.)

- (2) ☐ Deferral Contributions with respect to Bonus Compensation only. The Employer requires Participants to enter into a special salary reduction agreement to make Deferral Contributions with respect to one or more Bonuses, subject to minimum and maximum deferral limitations, as provided in the table below.

Deferral Contributions Type of Bonus	Treated As		Dollar Amount		% Amount	
	Performance Based	Non-Performance Based	Min	Max	Min	Max

(Note: With respect to each type of Bonus, list the minimum and maximum dollar amounts or percentages as whole dollar amounts or whole number percentages. In the event a bonus

identified as a Performance-based Bonus above does not constitute a Performance-based Bonus with respect to any Participant, such Bonus will be treated as a Non-Performance-based Bonus with respect to such Participant.)

(b) Matching Contributions (Choose (1) or (2) below, and (3) below, as applicable):

- (1) ☒ The Employer shall make a Matching Contribution on behalf of each Employee Participant in an amount described below:
- (A) ☐ ___% of the Employee Participant's Deferral Contributions for the calendar year.
- (B) ☐ The amount, if any, declared by the Employer in writing, which writing is hereby incorporated herein.
- (C) ☒ Other: 100% of the first 3% of the Participant's Compensation contributed to this Plan and the German American Bancorp 401(k) Savings Plan as "Deferral Contributions" (as defined under the respective plans) for the Plan Year, plus 50% of the next 2% of the Participant's Compensation contributed to this Plan and the German American Bancorp 401(k) Savings Plan as "Deferral Contributions" (as defined under the respective plans) for the Plan Year; provided, however, that in no event shall the aggregate Employer matching contributions on behalf of any Participant in any Plan Year, considering both the Matching Contribution under this Plan and a Matching Employer Contribution under the German American Bancorp 401(k) Savings Plan, exceed 4% of such Participant's Compensation, with any excess, if any, reducing the Matching Contribution under this Plan.
- (2) ☐ Matching Contribution Offset. For each Employee Participant who has made elective contributions (as defined in 26 CFR section 1.401(k)-6 ("QP Deferrals")) of the maximum permitted under Code section 402(g), or the maximum permitted under the terms of the _____ Plan (the "QP"), to the QP, the Employer shall make a Matching Contribution in an amount equal to (A) minus (B) below:
- (A) The matching contributions (as defined in 26 CFR section 1.401(m)-1(a)(2) ("QP Match")) that the Employee Participant would have received under the QP on the sum of the Deferral Contributions and the Participant's QP Deferrals, determined as though—
- no limits otherwise imposed by the tax law applied to such QP match; and
 - the Employee Participant's Deferral Contributions had been made to the QP.

- (B) The QP Match actually made to such Employee Participant under the QP for the applicable calendar year.

Provided, however, that the Matching Contributions made on behalf of any Employee Participant pursuant to this Section 1.05(b)(2) shall be limited as provided in Section 4.02 hereof.

- (3) ☒ Matching Contribution Limits (Check the appropriate box(es)):

- (A) ☒ Deferral Contributions in excess of 5% of the Employee Participant's Compensation for the calendar year shall not be considered for Matching Contributions.

- (B) ☐ Matching Contributions for each Employee Participant for each calendar year shall be limited to \$_____.

(c) Employer Contributions

- (1) ☐ Fixed Employer Contributions. The Employer shall make an Employer Contribution on behalf of each Employee Participant in an amount determined as described below:

- (2) ☒ Discretionary Employer Contributions. The Employer may make Employer Contributions to the accounts of Employee Participants in any amount (which amount may be zero), as determined by the Employer in its sole discretion from time to time in a writing, which is hereby incorporated herein.

1.06 CONTRIBUTIONS ON BEHALF OF DIRECTORS

- (a) ☐ Director Deferral Contributions

The Employer shall make a Deferral Contribution in accordance with, and subject to, Section 4.01 on behalf of each Director Participant who has an executed deferral agreement in effect with the Employer for the applicable calendar year (or portion of the applicable calendar year), which deferral agreement shall be subject to any minimum and/or maximum deferral amounts provided in the table below.

Deferral Contributions Type of Compensation	Dollar Amount		% Amount	
	Min	Max	Min	Max

(Note: With respect to each type of Compensation, list the minimum and maximum dollar amounts or percentages as whole dollar amounts or whole number percentages.)

(b) Matching and Employer Contributions:

- (1) ☐ Matching Contributions. The Employer shall make a Matching Contribution on behalf of each Director Participant in an amount determined as described below:

- (2) ☐ Fixed Employer Contributions. The Employer shall make an Employer Contribution on behalf of each Director Participant in an amount determined as described below:

- (3) ☐ Discretionary Employer Contributions. The Employer may make Employer Contributions to the accounts of Director Participants in any amount (which amount may be zero), as determined by the Employer in its sole discretion from time to time, in a writing, which is hereby incorporated herein.

1.07 DISTRIBUTIONS

The form and timing of distributions from the Participant's vested Account shall be made consistent with the elections in this Section 1.07.

(a) (1) Distribution options to be provided to Participants

	(A) Specified Date	(B) Specified Age	(C) Separation From Service	(D) Earlier of Separation or Age	(E) Earlier of Separation or Specified Date	(F) Disability	(G) Change in Control	(H) Death
Deferral Contribution	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum	☒ Lump Sum ☒ Installments
Matching Contributions	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum	☒ Lump Sum ☒ Installments
Employer Contributions	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum ☒ Installments	☐ Lump Sum ☐ Installments	☒ Lump Sum ☒ Installments	☒ Lump Sum	☒ Lump Sum ☒ Installments

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(Note: If the Employer elects (F), (G), or (H) above, the Employer must also elect (A), (B), (C), (D), or (E) above, and the Participant must also elect (A), (B), (C), (D), or (E) above. In the event the Employer elects only a single payment trigger and/or payment method above, then such single payment trigger and/or payment method shall automatically apply to the Participant. If the employer elects to provide for payment upon a specified date or age, and the employer applies a vesting schedule to amounts that may be subject to such payment trigger(s), the employer must apply a minimum deferral period, the number of years of which must be greater than the number of years required for 100% vesting in any such amounts. If the employer elects to provide for payment upon disability and/or death, and the employer applies a vesting schedule to amounts that may be subject to such payment trigger, the employer must also elect to apply 100% vesting in any such amounts upon disability and/or death.)

- (2) ☒ A Participant incurs a Disability when the Participant (Check at least one if Section 1.07(a)(1)(F) or if Section 1.08(e)(3) is elected):

- (A) ☐ is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.
- (B) ☐ is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Employer.
- (C) ☒ is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.
- (D) ☐ is determined to be disabled pursuant to the following disability insurance program: _____ the definition of disability under which complies with the requirements in regulations under Code section 409A.

(Note: If more than one box above is checked, then the Participant will have a Disability if he satisfies at least one of the descriptions corresponding to one of such checked boxes.)

- (3) ☐ Regardless of any payment trigger and, as applicable, payment method, to which the Participant would otherwise be subject pursuant to (1) above, the first to occur of the following Plan-level payment triggers will cause payment to the Participant commencing pursuant to Section 1.07(c)(1) below in a lump sum, provided such Plan-level payment trigger occurs prior to the payment trigger to which the Participant would otherwise be subject.

Payment Trigger

- (A) ☐ Separation from Service prior to: _____
- (B) ☐ Separation from Service

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- (C) ☐ Death
 (D) ☐ Change in Control

(b) Distribution Election Change

A Participant

- (1) ☒ shall
 (2) ☐ shall not

be permitted to modify a scheduled distribution election in accordance with Section 8.01(b) hereof.

(c) Commencement of Distributions

- (1) Each lump sum distribution and the first distribution in a series of installment payments (if applicable) shall commence as elected in (A), (B) or (C) below:

(A) ☒	Monthly on the 15 th day of the month which day next follows the applicable triggering event described in 1.07(a).
(B) ☐	Quarterly on the ____ day of the following months ____, ____, or ____ (list one month in each calendar quarter) which day next follows the applicable triggering event described in 1.07(a).
(C) ☐	Annually on the ____ day of ____ (month) which day next follows the applicable triggering event described in 1.07(a).

(Note: Notwithstanding the above: a six-month delay shall be imposed with respect to certain distributions to Specified Employees; a Participant who chooses payment on a Specified Date will choose a month, year or quarter (as applicable) only, and payment will be made on the applicable date elected in (A), (B) or (C) above that falls within such month, year or quarter elected by the Participant.)

- (2) The commencement of distributions pursuant to the events elected in Section 1.07(a)(1) and Section 1.07(a)(3) shall be modified by application of the following:

- (A) ☐ Separation from Service Event Delay – Separation from Service will be treated as not having occurred for ____ months after the date of such event.
- (B) ☐ Plan Level Delay – all distribution events (other than those based on Specified Date or Specified Age) will be treated as not having occurred for ____ days (insert number of days but not more than 30).

(d) Installment Frequency and Duration

If installments are available under the Plan pursuant to Section 1.07(a), a Participant shall be permitted to elect that the installments will be paid *(Complete 1 and 2 below)*:

(1) at the following intervals:

- (A) ☐ Monthly commencing on the day elected in Section 1.07(c)(1).
(B) ☐ Quarterly commencing on the day elected in Section 1.07(c)(1) (with payments made at three-month intervals thereafter).
(C) ☒ Annually commencing on the day elected in Section 1.07(c)(1).

(2) over the following term(s) *(Complete either (A) or (B))*:

- (A) ☒ Any term of whole years between 2 (minimum of 1) and 10 (maximum of 30).
(B) ☐ Any of the whole year terms selected below.

☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7	☐ 8	☐ 9	☐ 10	☐ 11	☐ 12
☐ 13	☐ 14	☐ 15	☐ 16	☐ 17	☐ 18
☐ 19	☐ 20	☐ 21	☐ 22	☐ 23	☐ 24
☐ 25	☐ 26	☐ 27	☐ 28	☐ 29	☐ 30

(Note: Only elect a term of one year if Section 1.07(d)(1)(A) and/or Section 1.07(d)(1)(B) is elected above.)

(e) Conversion to Lump Sum

- ☐ Notwithstanding anything herein to the contrary, if the Participant's vested Account at the time such Account becomes payable to him hereunder does not exceed \$ ___ distribution of the Participant's vested Account shall automatically be made in the form of a single lump sum at the time prescribed in Section 1.07(c)(1).

(f) Distribution Rules Applicable to Pre-effective Date Accruals

- ☐ Benefits accrued under the Plan (subject to Code section 409A) prior to the date in Section 1.01(b)(1) above are subject to distribution rules not described in Section 1.07(a) through (e), and such rules are described in Attachment A Re: PRE EFFECTIVE DATE ACCRUAL DISTRIBUTION RULES.

1.08 VESTING SCHEDULE

- (a) (1) The Participant's vested percentage in Matching Contributions elected in Section 1.05(b) shall be based upon the following schedule and unless Section 1.08(a)(2) is checked below will be based on the elapsed time method as described in Section 7.03(b).

<u>Years of Service</u>	<u>Vesting %</u>
0	100

- (2) ☐ Vesting shall be based on the class year method as described in Section 7.03(c).

- (b) (1) The Participant's vested percentage in Employer Contributions elected in Section 1.05(c) shall be based upon the following schedule and unless Section 1.08(b)(2) is checked below will be based on the elapsed time method as described in Section 7.03(b).

<u>Years of Service</u>	<u>Vesting %</u>
0	100

- (2) ☐ Vesting shall be based on the class year method as described in Section 7.03(c).

- (c) ☐ Years of Service shall exclude (*Check one.*):

(1) ☐ for new plans, service prior to the Effective Date as defined in Section 1.01(b)(2)(A).

(2) ☐ for existing plans converting from another plan document, service prior to the original Effective Date as defined in Section 1.01(b)(2)(B).

(Note: Do not elect to apply this Section 1.08(c) if vesting is based only on the class year method.)

- (d) ☒ Notwithstanding anything to the contrary herein, a Participant will forfeit his Matching Contributions and Employer Contributions (regardless of whether vested) upon the occurrence of the following event(s):
- (i) a Participant's willful breach of any applicable confidentiality or non-competition agreement with the Employer, (ii) a Participant's willful (a) dishonesty, (b) fraud or (c) misconduct with respect to the business or affairs of the Employer or an affiliate which materially and adversely affects the operations or reputation of the Employer or a Related Employer (monetarily or otherwise); or (iii) a Participant's conviction of a felony crime involving moral turpitude or a crime involving property of the Employer or a Related Employer, or entry of a plea of nolo contendere thereof.

(Note: Contributions with respect to Directors, which are 100% vested at all times, are subject to the rule in this subsection (d).)

- (e) A Participant will be 100% vested in his Matching Contributions and Employer Contributions upon (Check the appropriate box(es)):

- (1) ☐ Retirement eligibility is the date the Participant attains age __ and completes __ Years of Service, as defined in Section 7.03(b).
(2) ☐ Death.
(3) ☐ The date on which the Participant becomes disabled, as determined under Section 1.07(a)(2).

(Note: Participants will automatically vest upon Change in Control if Section 1.07(a)(1)(G) is elected.)

- (f) ☐ Years of Service in Section 1.08 (a)(1) and Section 1.08 (b)(1) shall include service with the following employers:

1.09 INVESTMENT DECISIONS

A Participant's Account shall be treated as invested in the Permissible Investments as directed by the Participant unless otherwise provided below:

1.10 ADDITIONAL PROVISIONS

The Employer may elect Option below and complete the Superseding Provisions Addendum to describe overriding provisions that are not otherwise reflected in this Adoption Agreement.

- ☒ The Employer has completed the Superseding Provisions Addendum to reflect the provisions of the Plan that supersede provisions of this Adoption Agreement and/or the Basic Plan Document.

EXECUTION PAGE
(Fidelity's Copy)

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 12th day of DECEMBER 20 08.

Employer GERMAN AMERICAN BANCORP, INC.

By Lisa A. Matheis

Title VICE PRESIDENT

Plan Number: 44293
(07/2007)

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12/11/2008

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EXECUTION PAGE
(Employer's Copy)

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 12th day of DECEMBER, 2008.

Employer GERMAN AMERICAN BANCORP, INC.

By Lisa A. Matheis

Title VICE PRESIDENT

Plan Number: 44293
(07/2007)

ECM NQ 2007 AA
12/11/2008

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AMENDMENT EXECUTION PAGE
(Fidelity's Copy)

Plan Name: German American Bancorp, Inc. Nonqualified Savings Plan (the "Plan")

Employer: German American Bancorp, Inc.

(Note: These execution pages are to be completed in the event the Employer modifies any prior election(s) or makes a new election(s) in this Adoption Agreement. Attach the amended page(s) of the Adoption Agreement to these execution pages.)

The following section(s) of the Plan are hereby amended effective as of the date(s) set forth below:

Section Amended	Effective Date

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed on the date below.

Employer: _____

By: _____

Title: _____

Date: _____

Plan Number: 44293
(07/2007)

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AMENDMENT EXECUTION PAGE
(Employer's Copy)

Plan Name: German American Bancorp, Inc. Nonqualified Savings Plan (the "Plan")

Employer: German American Bancorp, Inc.

(Note: These execution pages are to be completed in the event the Employer modifies any prior election(s) or makes a new election(s) in this Adoption Agreement. Attach the amended page(s) of the Adoption Agreement to these execution pages.)

Section Amended	Effective Date

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed on the date below.

Employer: _____

By: _____

Title: _____

Date: _____

Plan Number: 44293
(07/2007)

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ATTACHMENT A

Re: PRE EFFECTIVE DATE ACCRUAL DISTRIBUTION RULES

Plan Name: German American Bancorp, Inc. Nonqualified Savings Plan (the "Plan")

Plan Number: 44293
(07/2007)

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ATTACHMENT B

Re: SUPERSEDING PROVISIONS
for

Plan Name: German American Bancorp, Inc. Nonqualified Savings Plan (the "Plan")

(a) Superseding Provision(s) – The following provisions supersede other provisions of this Adoption Agreement and/or the Basic Plan Document as described below:

1. Section 1.07(a)(1) of the Adoption Agreement to the Plan is hereby amended by the addition of the following paragraphs at the end thereof, to be and read as follows:

Notwithstanding any provision in the Plan or the Adoption Agreement to the Plan to the contrary, as a condition of participating in the Plan, each Participant shall elect, at the time of initial participation in the Plan and on a form and within the timeframe provided by the Plan Administrator, the timing of when his distributions shall begin, which shall be either (A) the 15th day of the month following the applicable triggering event described above, or (B) the 15th day of the calendar year following the applicable triggering event described above.

Notwithstanding the preceding provisions of this Section 1.07(a) and as permitted by Internal Revenue Service Notice 2006-79, as modified by Internal Revenue Service Notice 2007-86 and the additional transition relief under the final regulations under Code Section 409A, including transition relief for changes in payment elections made on or before December 31, 2008, the Participants may make changes to the timing and/or form of payment with respect to the distribution of the Participant's vested Account to the extent the Participant's triggering event occurs after December 31, 2008. The timing and form of distribution provisions previously elected by a Participant shall continue to apply with respect to a triggering event occurring prior to 2009.

The CORPORATEplan for RetirementSM EXECUTIVE PLAN

BASIC PLAN DOCUMENT

IMPORTANT NOTE

This document has not been approved by the Department of Labor, the Internal Revenue Service or any other governmental entity. The Employer must determine whether the plan is subject to the Federal securities laws and the securities laws of the various states. The Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is "unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees" under the Employee Retirement Income Security Act with respect to the Employer's particular situation. Fidelity Management Trust Company, its affiliates and employees cannot and do not provide legal or tax advice or opinions in connection with this document. This document does not constitute legal or tax advice or opinions and is not intended or written to be used, and it cannot be used by any taxpayer, for the purposes of avoiding penalties that may be imposed on the taxpayer. This document must be reviewed by the Employer's attorney prior to adoption.

CORPORATE plan for Retirement EXECUTIVE
BASIC PLAN DOCUMENT

ARTICLE 1
ADOPTION AGREEMENT

ARTICLE 2
DEFINITIONS

2.01 - Definitions

ARTICLE 3
PARTICIPATION

3.01 - Date of Participation

3.02 - Participation Following a Change in Status

ARTICLE 4
CONTRIBUTIONS

4.01 - Deferral Contributions

4.02 - Matching Contributions

4.03 - Employer Contributions

4.04 - Election Forms

ARTICLE 5
PARTICIPANTS' ACCOUNTS

ARTICLE 6
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PREAMBLE

It is the intention of the Employer to establish herein an unfunded plan maintained solely for the purpose of providing deferred compensation for a select group of management or highly compensated employees as provided in ERISA. The Employer further intends that this Plan comply with Code section 409A, and the Plan is to be construed accordingly.

If the Employer has previously maintained the Plan described herein pursuant to a previously existing plan document or description, the Employer's adoption of this Plan document is an amendment and complete restatement of, and supersedes, such previously existing document or description with respect to benefits accrued or to be paid on or after the effective date of this document (except to the extent expressly provided otherwise herein).

Article 1. Adoption Agreement.

Article 2. Definitions.

2.01. Definitions.

(a) Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

- (1) "Account" means an account established on the books of the Employer for the purpose of recording amounts credited to a Participant and any income, expenses, gains, or losses attributable thereto.
- (2) "Active Participant" means a Participant who is eligible to accrue benefits under a plan (other than earnings on amounts previously deferred) within the 24-month period ending on the date the Participant becomes a Participant under Section 3.01. Notwithstanding the above, however, a Participant is not an Active Participant if he has been paid all amounts deferred under the plan, provided that he was, on and before the date of the last payment, ineligible to continue or to elect to continue to participate in the plan for periods after such last payment (other than through an election of a different time and form of payment with respect to the amounts paid).
 - (A) For purposes of Section 4.01(d), as used in the first paragraph of the definition of "Active Participant" above, "plan" means an account balance plan (or portion thereof) of the Employer or a Related Employer subject to Code section 409A pursuant to which the Participant is eligible to accrue benefits only if the Participant elects to defer compensation thereunder, and the "date the Participant becomes a Participant under Section 3.01" refers only to the date the Participant becomes a Participant with respect to Deferral Contributions.
 - (B) For purposes of Section 8.01(a)(2), as used in the first paragraph of the definition of "Active Participant" above, "plan" means an account balance plan (or portion thereof) of the Employer or a Related Employer subject to Code section 409A pursuant to which the Participant is eligible to accrue benefits without any election by the Participant to defer compensation thereunder, and the "date the Participant becomes a Participant under Section 3.01" refers only to the date the Participant becomes a Participant with respect to Matching or Employer Contributions.



(3) "Administrator" means the Employer adopting this Plan (but excluding Related Employers) or other person designated by the Employer in Section 1.01(c).

(4) "Adoption Agreement" means Article 1, under which the Employer establishes and adopts or amends the Plan and selects certain provisions of the Plan. The provisions of the Adoption Agreement are an integral part of the Plan.

(5) "Beneficiary" means the person or persons entitled under Section 7.02 to receive benefits under the Plan upon the death of a Participant.

(6) "Bonus" means any Performance-based Bonus or any Non-performance-based Bonus as listed and identified in the table in Section 1.05(a)(2) hereof.

(7) "Change in Control" means a change in control with respect to the applicable corporation, as defined in 26 CFR section 1.409A-3(i)(5). For purposes of this definition "applicable corporation" means:

(A) The corporation for which the Participant is performing services at the time of the change in control event;

(B) The corporation(s) liable for payment hereunder (but only if either the accrued benefit hereunder is attributable to the performance of service by the Participant for such corporation(s) or there is a bona fide business purpose for such corporation(s) to be liable for such payment and, in either case, no significant purpose of making such corporation(s) liable for such benefit is the avoidance of Federal income tax); or

(C) A corporate majority shareholder of one of the corporations described in (A) or (B) above or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (A) or (B) above.

(8) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(9) "Compensation" means for purposes of Article 4:

(A) If the Employer elects Section 1.04(a), such term as defined in such Section 1.04(a).

(B) If the Employer elects Section 1.04(b), wages as defined in Code section 3401(a) and all other payments of compensation to an Employee by the Employer (in the course of the Employer's trade or business) for which the Employer is required to furnish the Employee a written statement under Code sections 6041(d) and 6051(a)(3), excluding any items elected by the Employer in Section 1.04(b), reimbursements or other expense allowances, fringe benefits (cash and non-cash), moving expenses, deferred compensation and welfare benefits, but including amounts that are not includable in the gross income of the Employee under a salary reduction agreement by reason of the application of Code section 125, 132(f)(4), 402(e)(3), 402(h) or 403(b). Compensation shall be determined without regard to any rules under Code section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code section 3401(a)(2)).



- (C) If the Employer elects Section 1.04(c), any and all monetary remuneration paid to the Director by the Employer, including, but not limited to, meeting fees and annual retainers, and excluding items listed in Section 1.04(c).

For purposes of this Section 2.01(a)(9), Compensation shall also include amounts deferred pursuant to an election under Section 4.01.

- (10) "Deferral Contribution" means a hypothetical contribution credited to a Participant's Account as the result of the Participant's election to reduce his Compensation in exchange for such credit, as described in Section 4.01.

- (11) "Director" means a person, other than an Employee, who is elected or appointed as a member of the board of directors of the Employer, with respect to a corporation, or to an analogous position with respect to an entity that is not a corporation.

- (12) "Disability" is described in Section 1.07(a)(2).

- (13) "Employee" means any employee of the Employer.

- (14) "Employer" means the employer named in Section 1.02(a) and any Related Employers listed in Section 1.02(b).

- (15) "Employer Contribution" means a hypothetical contribution credited to a Participant's Account under the Plan as a result of the Employer's crediting of such amount, as described in Section 4.03.

- (16) "Employment Commencement Date" means the date on which the Employee commences employment with the Employer.

- (17) "ERISA" means the Employee Retirement Income Security Act of 1974, as from time to time amended.

- (18) "Inactive Participant" means a Participant who is not an Employee or Director.

- (19) "Matching Contribution" means a hypothetical contribution credited to a Participant's Account under the Plan as a result of the Employer's crediting of such amount, as described in Section 4.02.

- (20) "Non-performance-based Bonus" means any Bonus listed under the column entitled "non-performance based" in Section 1.05(a)(2).

- (21) "Participant" means any Employee or Director who participates in the Plan in accordance with Article 3 (or formerly participated in the Plan and has an amount credited to his Account).

- (22) "Performance-based Bonus" means any Bonus listed under the column entitled "performance based" in Section 1.05(a)(2), which constitutes compensation, the amount of, or entitlement to, which is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months and which is further defined in 26 CFR section 1.409A-1(e).

- (23) "Permissible Investment" means the investments specified by the Employer as available for hypothetical investment of Accounts. The Permissible Investments under the Plan are listed in the Service Agreement, and the provisions of the Service Agreement listing the Permissible Investments are hereby incorporated herein.

(24) "Plan" means the plan established by the Employer as set forth herein as a new plan or as an amendment to an existing plan, such establishment to be evidenced by the Employer's execution of the Adoption Agreement, together with any and all amendments hereto.

(25) "Related Employer" means any employer other than the Employer named in Section 1.02(a), if the Employer and such other employer are members of a controlled group of corporations (as defined in Code section 414(b)) or trades or businesses (whether or not incorporated) under common control (as defined in Code section 414(c)).

(26) "Separation from Service" means the date the Participant retires or otherwise has a termination of employment (or a termination of the contract pursuant to which the Participant has provided services as a Director, for a Director Participant) with the Employer and all Related Employers, as further defined in 26 CFR section 1.409A-1(h); provided, however, that

(A) For purposes of this paragraph (26), the definition of "Related Employer" shall be modified as follows:

(i) In applying Code section 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the phrase "at least 50%" shall be used instead of "at least 80 percent" each place "at least 80 percent" appears in Code section 1563(a)(1), (2) and (3); and

(ii) In applying 26 CFR section 1.414(c)-2 for purposes of determining trades or business (whether or not incorporated) under common control for purposes of Code section 414(c), the phrase "at least 50%" shall be used instead of "at least 80 percent" each place "at least 80 percent" appears in 26 CFR section 1.414(c)-2.

(B) In the event a Participant provides services to the Employer or a Related Employer as an Employee and a Director,

(i) The Employee Participant's services as a Director are not taken into account in determining whether the Participant has a Separation from Service as an Employee; and

(ii) The Director Participant's services as an Employee are not taken into account in determining whether the Participant has a Separation from Service as a Director

provided that this Plan is not aggregated with a plan subject to Code section 409A in which the Director Participant participates as an employee of the Employer or a Related Employer or in which the Employee Participant participates as a director (or a similar position with respect to a non-corporate entity) of the Employer or a Related Employer, as applicable, pursuant to 26 CFR section 1.409A-1(c)(2)(ii).

(27) "Service Agreement" means the agreement between the Employer and Trustee regarding the arrangement between the parties for recordkeeping services with respect to the Plan.

(28) "Specified Employee," (unless defined by the Employer in a separate writing, in which case such writing is hereby incorporated herein) means a Participant who meets the requirements in 26 CFR section 1.409A-1(i) applying the default definition components provided in such regulation (those that would apply absent elections, as described in 26 CFR section 1.409A-1(i)(8)), including an identification date of December 31. In the event that such default definition components are applicable, the Employer has elected Section 1.01(b)(2) and, immediately prior to the date in Section 1.01(b)(2), the Plan applied an identification date (the "prior date") other than the December 31, the prior date shall continue to apply, and December 31 shall not apply, until the date that is 12 months after the date in Section 1.01(b)(2).



(29) "Trust" means the trust created by the Employer, pursuant to the Trust agreement between the Employer and the Trustee, under which assets are held, administered, and managed, subject to the claims of the Employer's creditors in the event of the Employer's insolvency, until paid to Participants and their Beneficiaries as specified in the Plan.

(30) "Trust Fund" means the property held in the Trust by the Trustee.

(31) "Trustee" means the individual(s) or entity appointed by the Employer under the Trust agreement.

(32) "Unforeseeable Emergency" is as defined in 26 CFR section 1.409A-3(i)(3)(i).

(33) "Year of Service" is as defined in Section 7.03(b) for purposes of the elapsed time method and in Section 7.03(c) for purposes of the class year method.

(b) Pronouns used in the Plan are in the masculine gender but include the feminine gender unless the context clearly indicates otherwise.

Article 3. Participation.

3.01. Date of Participation. An Employee or Director becomes a Participant on the date such Employee's or Director's participation becomes effective (as described in Section 1.03).

3.02. Participation following a Change in Status.

(a) If a Participant ceases to be an Employee or Director and thereafter resumes the same status he had as a Participant during his immediately previous participation in the Plan (as an Employee if previously a Participant as an Employee and as a Director if previously a Participant as a Director), he will again become a Participant immediately upon resumption of such status, provided, however, that if such Participant is a Director, he is an eligible Director upon resumption of such status (as defined in Section 1.03(b)), and provided, further, that if such Participant is an Employee, he is an eligible Employee upon resumption of such status (as defined in Section 1.03(a)). Deferral Contributions to such Participant's Account thereafter, if any, shall be subject to (1) or (2) below.

(1) If the Participant resumes such status during a period for which such Participant had previously made a valid deferral election pursuant to Section 4.01, he shall immediately resume such Deferral Contributions. Deferral Contributions applicable to periods thereafter shall be made pursuant to the election and other rules described in Section 4.01.

(2) If the Participant resumes such status after the period described in the first sentence of paragraph (1) of this Section 3.02, any Deferral Contributions with respect to such Participant shall be made pursuant to the election and other rules described in Section 4.01.

(b) When an individual who is a Participant due to his status as an eligible Employee (as defined in Section 1.03(a)) continues in the employ of the Employer or Related Employer but ceases to be an eligible Employee, the individual shall not receive an allocation of Matching or Employer Contributions for the period during which he is not an eligible Employee. Such Participant shall continue to make Deferral Contributions throughout the remainder of the applicable period (as described in Section 4.01) in which such change in status occurs, if, and as, applicable.

(c) When an individual who is a Participant due to his status as an eligible Director (as defined in Section 1.03(b)) continues his directorship with the Employer or a Related Employer but ceases to be an eligible Director, the individual shall not receive an allocation of Matching or Employer Contributions for the period during which he is not an eligible Director. Such Participant shall continue to make Deferral Contributions throughout the remainder of the applicable period (as described in Section 4.01) in which such change in status occurs, if, and as, applicable.

Article 4. Contributions.

4.01 Deferral Contributions. If elected by the Employer pursuant to Section 1.05(a) and/or 1.06(a), a Participant described in such applicable Section may elect to reduce his Compensation by a specified percentage or dollar amount. The Employer shall credit an amount to the Participant's Account equal to the amount of such reduction. Except as otherwise provided in this Section 4.01, such election shall be effective to defer Compensation relating to all services performed in the calendar year beginning after the calendar year in which the Participant executes the election. Under no circumstances may a salary reduction agreement be adopted retroactively. If the Employer has elected to apply Section 1.05(a)(2), no amount will be deducted from Bonuses unless the Participant has made a separate deferral election applicable to such Bonuses. A Participant's election to defer Compensation may be changed at any time before the last permissible date for making such election, at which time such election becomes irrevocable. Notwithstanding anything herein to the contrary, the conditions under which a Participant may make a deferral election as provided in the applicable salary reduction agreement are hereby incorporated herein and supersede any otherwise inconsistent Plan provision.

(a) Performance Based Bonus. With respect to a Performance-based Bonus, a separate election made pursuant to Section 1.05(a)(2) will be effective to defer such Bonus if made no later than 6 months before the end of the period during which the services on which such Performance-based Bonus is based are performed.

(b) Fiscal Year Bonus. With respect to a Bonus relating to a period of service coextensive with one or more consecutive fiscal years of the Employer, of which no amount is paid or payable during the service period, a separate election pursuant to Section 1.05(a)(2) will be effective to defer such Bonus if made no later than the close of the Employer's fiscal year next preceding the first fiscal year in which the Participant performs any services for which such Bonus is payable.

(c) Cancellation of Salary Reduction Agreement.

(1) The Administrator may cancel a Participant's salary reduction agreement pursuant to the provisions of 26 CFR section 1.409A-3(j)(4)(viii) in connection with the Participant's Unforeseeable Emergency. To the extent required pursuant to the application of 26 CFR section 1.401(k)-1(d)(3) (or any successor thereto), a Participant's salary reduction agreement shall be automatically cancelled.

(2) The Administrator may cancel a Participant's salary reduction agreement pursuant to the provisions of 26 CFR section 1.409A-3(j)(4)(xii) in connection with the Participant's disability. Such cancellation must occur by the later of the end of the Participant's taxable year or the 15th day of the third month following the date the Participant incurs a disability. For purposes of this paragraph (2), a disability is any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.



In no event may the Participant, directly or indirectly, elect such a cancellation. A cancellation pursuant to this subsection (c) shall apply only to Compensation not yet earned.

- (d) Initial Deferral Election. Notwithstanding the above, if the Participant is not an Active Participant, the Participant may make an election to defer Compensation within 30 days after the Participant becomes a Participant, which election shall be effective with respect to Compensation payable for services performed during the calendar year (or other deferral period described in (a) or (b) above, as applicable) and after the date of such election. For Compensation that is earned based upon a specified performance period (e.g., an annual bonus) an election pursuant to this subsection (d) will be effective to defer an amount equal to the total amount of the Compensation for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period.

4.02. Matching Contributions. If so provided by the Employer in Section 1.05(b) and/or 1.06(b)(1), the Employer shall credit a Matching Contribution to the Account of each Participant entitled to such Matching Contribution. The amount of the Matching Contribution shall be determined in accordance with Section 1.05(b) and/or 1.06(b)(1), as applicable, provided, however, that the Matching Contributions credited to the Account of a Participant pursuant to Section 1.05(b)(2) shall be limited pursuant to (a) and (b) below:

- (a) The sum of Matching Contributions made on behalf of a Participant pursuant to Section 1.05(b)(2) for any calendar year and any other benefits the Participant accrues pursuant to another plan subject to Code section 409A as a result of such Participant's action or inaction under a qualified plan with respect to elective deferrals and other employee pre-tax contributions subject to the contribution restrictions under Code section 401(a)(30) or 402(g) shall not result in an increase in the amounts deferred under all plans subject to Code section 409A in which the Participant participates in excess of the limit with respect to elective deferrals under Code section 402(g)(1)(A), (B) and (C) in effect for the calendar year in which such action or inaction occurs; and
- (b) The Matching Contributions made on behalf of a Participant pursuant to Section 1.05(b)(2) shall never exceed 100% of the matching amounts that would be provided under the qualified employer plan identified in Section 1.05(b)(2) absent any plan-based restrictions that reflect limits on qualified plan contributions under the Code.

4.03. Employer Contributions. If so provided by the Employer in Section 1.05(c)(1) and/or 1.06(b)(2), the Employer shall make an Employer Contribution to be credited to the Account of each Participant entitled thereto in the amount provided in such Section(s). If so provided by the Employer in Section 1.05(c)(2) and/or 1.06(b)(3), the Employer may make an Employer Contribution to be credited to the Account maintained on behalf of any Participant in such an amount as the Employer, in its sole discretion, shall determine, subject to the provisions of the applicable Section.

4.04. Election Forms. Notwithstanding anything herein to the contrary, the terms of an election form with respect to the conditions under which a Participant may make any election hereunder, as provided in such form (whether electronic or otherwise) are hereby incorporated herein and supersede any otherwise inconsistent Plan provision.

Article 5. Participants' Accounts. The Administrator will maintain an Account for each Participant, reflecting hypothetical contributions credited to the Participant, along with hypothetical earnings, expenses, gains and losses, pursuant to the terms hereof. A hypothetical contribution shall be credited to the Account of a Participant on the date determined by the Employer and accepted by the Plan recordkeeper. The Administrator will maintain such other accounts and records as it deems appropriate to the discharge of its duties under the Plan.



Article 6. Investment of Accounts.

6.01. Manner of Investment. All amounts credited to the Accounts of Participants shall be treated as though invested and reinvested only in Permissible Investments.

6.02. Investment Decisions, Earnings and Expenses. Investments in which the Accounts of Participants shall be treated as invested and reinvested shall be directed by the Employer or by each Participant, or both, in accordance with Section 1.09. All dividends, interest, gains, and distributions of any nature that would be earned on a Permissible Investment will be credited to the Account as though reinvested in additional shares of that Permissible Investment. Expenses that would be attributable to such investments shall be charged to the Account of the Participant.

Article 7. Right to Benefits.

7.01. Retirement. If provided by the Employer in Section 1.08(e)(1), the Account of a Participant or an Inactive Participant who attains retirement eligibility prior to a Separation from Service will be 100% vested.

7.02. Death. If provided by the Employer in Section 1.08(e)(2), the Account of a Participant or former Participant who dies before the distribution of his entire Account will be 100% vested, provided that at the time of his death he is earning Years of Service.

A Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries, by giving notice to the Administrator on a form designated by the Administrator. If more than one person is designated as the Beneficiary, their respective interests shall be as indicated on the designation form.

A copy of the death certificate or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's Account, such amount will be paid to his surviving spouse or, if none, to his estate (such spouse or estate shall be deemed to be the Beneficiary for purposes of the Plan). If a Beneficiary dies after benefits to such Beneficiary have commenced, but before they have been completed, and, in the opinion of the Administrator, no person has been designated to receive such remaining benefits, then such benefits shall be paid to the deceased Beneficiary's estate.

A distribution to a Beneficiary of a Specified Employee is not considered to be a payment to a Specified Employee for purposes of Sections 1.07 and 8.01(e).

7.03. Separation from Service.

- (a) General. If provided by the Employer in Section 1.08, and subject to Section 1.08(e)(2), if a Participant has a Separation from Service, he will be entitled to a benefit equal to (i) the vested percentage(s) of the value of the Matching and Employer Contributions credited to his Account, as adjusted for income, expense, gain, or loss, such percentage(s) determined in accordance with the vesting schedule(s) and methodology selected by the Employer in Section 1.08, and (ii) the value of the Deferral Contributions to his Account as adjusted for income, expense, gain, or loss. The amount payable under this Section 7.03 will be distributed in accordance with Article 8.



- (b) Elapsed Time Vesting. Unless otherwise provided by the Employer in Section 1.08, vesting shall be determined based on the elapsed time method. For purposes of the elapsed time method, "Years of Service" means, with respect to any Participant or Inactive Participant, the number of whole years of his periods of service with the Employer and any Related Employers (as defined in Section 2.01(a)(26)(A)), subject to any exclusion elected by the Employer in Section 1.08(c). A Participant or Inactive Participant will receive credit for the aggregate of all time period(s) commencing with his Employment Commencement Date and ending on the date a break in service begins, unless any such years are excluded by Section 1.08(c). A Participant or Inactive Participant will also receive credit for any period of severance of less than 12 consecutive months. Fractional periods of a year will be expressed in terms of days.

A break in service is a period of severance of at least 12 consecutive months. A "period of severance" is a continuous period of time beginning on the date the Participant or Inactive Participant incurs a Separation from Service, or if earlier, the 12-month anniversary of the date on which the Participant or Inactive Participant was otherwise first absent from service.

Notwithstanding the above, the Employer shall comply with any service crediting rules to the extent required by applicable law.

- (c) Class Year Vesting. If provided by the Employer in Section 1.08, a Participant's or Inactive Participant's vested percentage in the Matching Contributions and/or Employer Contributions portion(s) of his Account shall be determined pursuant to the class year method. Pursuant to such method, amounts attributable to the applicable contribution types are assigned to "class years" established in the records of the Plan. Such class years are years (calendar or non-calendar) to which the contribution is assigned by the Administrator, as described in the Service Agreement between the Trustee and the Employer. The Participant's or Inactive Participant's vested percentage in amounts attributable to a particular contribution is determined from the beginning of the applicable class year to the date the Participant or Inactive Participant incurs a Separation from Service. For purposes of the class year method, a Participant or Inactive Participant is credited with a Year of Service on the first day of each such class year.

7.04. Vesting after Partial Distribution. If a distribution from a Participant's Account has been made to him at a time when his Account is less than 100% vested, the vesting schedule in Section 1.08 will thereafter apply only to amounts in his Account attributable to Matching Contributions and Employer Contributions credited after such distribution. The balance of his Account attributable to Matching Contributions and Employer Contributions immediately after such distribution will be subject to the following for the purpose of determining his interest therein.

At any relevant time prior to a forfeiture of any portion thereof under Section 7.05, a Participant's nonforfeitable interest in the portion of his Account described in the sentence immediately above will be equal to $P(AB + (R \times D)) - (R \times D)$, where P is the nonforfeitable percentage at the relevant time determined under Section 1.08; AB is the account balance of such portion at the relevant time; D is the amount of the distribution; and R is the ratio of the account balance of such portion at the relevant time to the account balance of such portion after distribution. Following a forfeiture of any portion of such portion under Section 7.05 below, any balance with respect to such portion will remain fully vested and nonforfeitable.

7.05. Forfeitures. Once payments are to commence to a Participant or Inactive Participant hereunder, the portion of such Account subject to the same payment commencement date but not yet vested, if any, (determined by his vested percentage at such payment commencement date) will be forfeited by him

7.06. Change in Control. If the Employer has elected to apply Section 1.07(a)(3)(D), then, upon a Change in Control, notwithstanding any other provision of the Plan to the contrary, all Participant Accounts shall be 100% vested.

7.07. Disability. If the Employer has elected to apply Section 1.08(e)(3), then, upon the date a Participant incurs a Disability, as defined in Section 1.07(a)(2), notwithstanding any other provision of the Plan to the contrary, all Accounts of such Participant shall be 100% vested.

7.08. Directors. Notwithstanding any other provision of the Plan to the contrary, all Accounts of a Participant who is a Director shall be 100% vested at all times, including Accounts attributable to the Participant's service as an Employee, if any.

Article 8. Distribution of Benefits

8.01 Events Triggering, and Form of, Distributions

- (a) Events triggering the distribution of benefits and the form of such distributions are described in Section 1.07(a), pursuant to the Employer's election and/or the Participant's election, as applicable.
 - (1) With respect to the form and time of distribution of amounts attributable to a Deferral Contribution, a Participant election must be made no later than the time by which the Participant must elect to make a Deferral Contribution, as described in Section 4.01.
 - (2) With respect to the form and time of distribution of amounts attributable to Matching or Employer Contributions, a Participant election must be made no later than the time by which a Participant would be required to make a Deferral Contribution as described in Section 4.01 with respect to the calendar year for which the Matching and/or Employer Contributions are credited. For purposes of applying Section 4.01(d) "Active Participant" shall have the meaning assigned in Section 2.01(a)(2)(B).
 - (3) Notwithstanding anything herein to the contrary, an election choosing a distribution trigger and payment method pursuant to Section 1.07(a)(1) will only be effective with respect to amounts attributable to contributions credited to the Participant's Account for the calendar year (or other deferral period described in 4.01(a) or (b)) to which such election relates. Amounts attributable to contributions credited to a Participant's account prior to the effective date of any new election will not be affected and will be paid in accordance with the otherwise applicable election.
- (b) If the Employer elects to permit a distribution election change pursuant to Section 1.07(b), then any such distribution election change must satisfy (1) through (3) below:
 - (1) Such election may not take effect until at least 12 months after the date on which such election is made.
 - (2) In the case of an election related to a payment not on account of Disability, death or the occurrence of an Unforeseeable Emergency, the payment with respect to which such election is made must be deferred for a period of not less than five years from the date such payment would otherwise have been paid (or in the case of installment payments, five years from the date the first amount was scheduled to be paid).



- (3) Any election related to a payment at a specified time or pursuant to a fixed schedule may not be made less than 12 months prior to the date the payment is scheduled to be paid (or in the case of installment payments, 12 months prior to the date the first amount was scheduled to be paid).

With respect to any initial distribution election, a Participant shall in no event be permitted to make more than one distribution election change.

- (c) A Participant's entitlement to installments will not be treated as an entitlement to a series of separate payments.
- (d) If the Plan does not provide for Plan-level payment triggers pursuant to Section 1.07(a)(3), and the Participant does not designate in the manner prescribed by the Administrator the method of distribution, and/or the distribution trigger (if and as required), such method of distribution shall be a lump sum at Separation from Service.
- (e) Notwithstanding anything herein to the contrary, with respect to any Specified Employee, if the applicable payment trigger is Separation from Service, then payment shall not commence before the date that is six months after the date of Separation from Service (or, if earlier, the date of death of the Specified Employee, pursuant to Section 7.02). Payments to which a Specified Employee would otherwise be entitled during the first six months following the date of Separation from Service are delayed by six months.
- (f) Notwithstanding anything herein to the contrary, the Administrator may, in its discretion, automatically pay out a Participant's vested Account in a lump sum, provided that such payment satisfies the requirements in (1) through (3) below:
 - (1) Such payment results in the termination and liquidation of the entirety of the Participant's interest under the plan (as defined in 26 CFR section 1.409A-1(c)(2)), including all agreements, methods, programs, or other arrangements with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under 26 CFR section 1.409A-1(c)(2);
 - (2) Such payment is not greater than the applicable dollar amount under Code section 402(g)(1)(B); and
 - (3) Such exercise of Administrator discretion is evidenced in writing no later than the date of such payment.
- (g) Notwithstanding anything herein to the contrary, the Administrator may, in its discretion, delay a payment otherwise required hereunder to a date after the designated payment date due to any of the circumstances described in (1) through (4) below, provided that the Administrator treats all payments to similarly situated Participants on a reasonably consistent basis.
 - (1) In the event the Administrator reasonably anticipates that, if the payment were made as scheduled, the Employer's deduction with respect to such payment would not be permitted due to the application of Code section 162(m), provided the delay complies with the conditions in 26 CFR section 1.409A-2(b)(7)(i).
 - (2) In the event the Administrator reasonably anticipates that the making of such payment will violate Federal securities laws or other applicable law, provided the delay complies with the conditions in 26 CFR section 1.409A-2(b)(7)(ii).
 - (3) Upon such other events and conditions as the Commissioner of the Internal Revenue Service may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.



- (4) Upon a change in control event, provided the delay complies with conditions in 26 CFR section 1.409A-3(i)(5)(iv).
- (h) Notwithstanding anything herein to the contrary, the Administrator may provide an election to change the time or form of a payment hereunder to satisfy the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended, 38 USC sections 4301 through 4344.

8.02. Notice to Trustee. The Administrator will provide direction to the Trustee, as provided in the Trust agreement, whenever any Participant or Beneficiary is entitled to receive benefits under the Plan. The Administrator's notice shall indicate the form, amount and frequency of benefits that such Participant or Beneficiary shall receive.

8.03. Unforeseeable Emergency Withdrawals. Notwithstanding anything herein to the contrary, a Participant may apply to the Administrator to withdraw some or all of his Account if such withdrawal is made on account of an Unforeseeable Emergency as determined by the Administrator in accordance with the requirements of and subject to the limitations provided in 26 CFR section 1.409A-3(i)(3).

Article 9. Amendment and Termination.

9.01 Amendment by Employer. The Employer reserves the authority to amend the Plan in its discretion. Any such amendment notwithstanding, no Participant's Account shall be reduced by such amendment below the amount to which the Participant would have been entitled if he had voluntarily left the employ of the Employer immediately prior to the date of the change.

9.02. Termination. The Employer has no obligation or liability whatsoever to maintain the Plan for any length of time and may terminate the Plan at any time by written notice delivered to the Trustee without any liability hereunder for any such discontinuance or termination. Such termination shall comply with 26 CFR section 1.409A-3(j)(4)(ix) and other applicable guidance.

Article 10. Miscellaneous.

10.01. Communication to Participants. The Plan will be communicated to all Participants by the Employer promptly after the Plan is adopted.

10.02. Limitation of Rights. Neither the establishment of the Plan and the Trust, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to any Participant or other person any legal or equitable right against the Employer, Administrator or Trustee, except as provided herein; in no event will the terms of employment or service of any individual be modified or in any way affected hereby.

10.03. Nonalienability of Benefits. The benefits provided hereunder will not be subject to alienation, assignment, garnishment, attachment, execution or levy of any kind, either voluntarily or involuntarily, and any attempt to cause such benefits to be so subjected will not be recognized, except to such extent as may be required by law and as provided pursuant to a domestic relations order (defined in Code section 414(p)(1)(B)), as determined by the Administrator. Pursuant to a domestic relations order, payments may be accelerated to a time sooner, and pursuant to a schedule more rapid, than the time and schedule applicable in the absence of the domestic relations order, provided that such payment pursuant to such order is not made to the Participant and provided further that this provision shall not be construed to provide the Participant discretion regarding whether such payment time or schedule will be accelerated.



10.04. Facility of Payment. In the event the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of any benefit payments under the Plan is incapable of handling his affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may disburse such payments, or direct the Trustee to disburse such payments, as applicable, to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such payments shall be complete acquittance therefore, and any such payment to the extent thereof, shall discharge the liability of the Trust for the payment of benefits hereunder to such recipient.

10.05. Plan Records. The Administrator shall maintain the records of the Plan on a calendar-year basis.

10.06. USERRA. Notwithstanding anything herein to the contrary, the Administrator shall permit any Participant election and make any payments hereunder required by the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended, 38 USC 4301-4334.

10.07. Governing Law. The Plan and the accompanying Adoption Agreement will be construed, administered and enforced according to ERISA, and to the extent not preempted thereby, the laws of the State in which the Employer has its principal place of business, without regard to the conflict of laws principles of such State.

Article 11. Plan Administration.

11.01. Powers and Responsibilities of the Administrator. The Administrator has the full power and the full responsibility to administer the Plan in all of its details, subject, however, to the applicable requirements of ERISA. The Administrator's powers and responsibilities include, but are not limited to, the following:

- (a) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan;
- (b) To interpret the Plan, its interpretation thereof in good faith to be final and conclusive on all persons claiming benefits under the Plan;
- (c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;
- (d) To administer the claims and review procedures specified in Section 11.02;
- (e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;
- (f) To determine the person or persons to whom such benefits will be paid;
- (g) To authorize the payment of benefits;
- (h) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan; and
- (i) By written instrument, to allocate and delegate its responsibilities, including the formation of an administrative committee to administer the Plan.



11.02. Claims and Review Procedures.

(a) Claims Procedure. If any person believes he is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) information as to the steps to be taken if the person wishes to submit a request for review, including a statement of the such person's right to bring a civil action under ERISA section 502(a) following an adverse determination upon review. Such notification will be given within 90 days after the claim is received by the Administrator (or within 180 days, if special circumstances require an extension of time for processing the claim, and if written notice of such extension and circumstances is given to such person within the initial 90-day period).

If the claim concerns disability benefits under the Plan, the Plan Administrator must notify the claimant in writing within 45 days after the claim has been filed in order to deny it. If special circumstances require an extension of time to process the claim, the Plan Administrator must notify the claimant before the end of the 45-day period that the claim may take up to 30 days longer to process. If special circumstances still prevent the resolution of the claim, the Plan Administrator may then only take up to another 30 days after giving the claimant notice before the end of the original 30-day extension. If the Plan Administrator gives the claimant notice that the claimant needs to provide additional information regarding the claim, the claimant must do so within 45 days of that notice.

(b) Review Procedure. Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred), such person (or his duly authorized representative) may (i) file a written request with the Administrator for a review of his denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. This written request may include comments, documents, records, and other information relating to the claim for benefits. The claimant shall be provided, upon the claimant's request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The review will take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The decision on review will be made within 60 days after the request for review is received by the Administrator (or within 120 days, if special circumstances require an extension of time for processing the request, such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period). The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the determination on review.

If the initial claim was for disability benefits under the Plan and has been denied by the Plan Administrator, the claimant will have 180 days from the date the claimant received notice of the claim's denial in which to appeal that decision. The review will be handled completely independently of the findings and decision made regarding the initial claim and will be processed by an individual who is not a subordinate of the individual who denied the initial claim. If the claim requires medical judgment, the individual handling the appeal will consult with a medical professional whom was not consulted regarding the initial claim and who is not a subordinate of anyone consulted regarding the initial claim and identify that medical professional to the claimant.



The Plan Administrator shall provide the claimant with written notification of a plan's benefit determination on review. In the case of an adverse benefit determination, the notification shall set forth, in a manner calculated to be understood by the claimant – the specific reason or reasons for the adverse determinations, reference to the specific plan provisions on which the benefit determination is based, a statement that the claimant is entitled to receive, upon the claimant's request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits.

**FIRST AMENDMENT
TO THE
GERMAN AMERICAN BANCORP, INC. NONQUALIFIED SAVINGS PLAN**

THIS GERMAN AMERICAN BANCORP, INC. NONQUALIFIED SAVINGS PLAN ("Plan"), which Plan most recently was amended and restated effective January 1, 2009, by GERMAN AMERICAN BANCORP, INC. ("Employer"), further amends and modifies the Plan pursuant to the right to amend reserved in Section 9.01 of The CORPORATE *plan for Retirement* EXECUTIVE Plan Basic Plan Document that forms part of the Plan.

A.

Effective January 1, 2020, the "Coverage" provision under Section 1.03(a) of the Adoption Agreement for the Plan is hereby revised to read as follows:

- (a) ☒ The following Employees are eligible to participate in the Plan (*Check (1) or (2)*):

- (1) ☐ Only those Employees designated in writing by the Employer, which writing is hereby incorporated herein.
- (2) ☒ Only those Employees in the eligible class described below:

Those highly compensated or management employees of the Employer who are specifically designated from time to time by the Human Resources Committee as eligible to participate in the Plan.

B.

Effective January 1, 2020, the "Compensation" provision under Section 1.04(b) of the Adoption Agreement for the Plan is hereby revised to read as follows:

- (b) ☒ Compensation shall be defined in Section 2.01(a)(9) with respect to Employees (*Check (1), and/or (2) below, if, and as, appropriate*):

- (1) ☒ but excluding the following:

severance payments and benefits, Long Term Incentive Stock Awards, Long Term Incentive Cash Awards, Long Term Incentive Cash Dividends, and service award payments consisting of gift cards and related cash bonuses.

- (2) ☒ but excluding bonuses, except those bonuses listed in the table in Section 1.05(a)(2).

C.

Except as specifically amended above, the Plan shall remain unchanged and, as amended above, shall continue in full force and effect.

IN WITNESS WHEREOF, the Employer has caused this First Amendment to the German American Bancorp, Inc. Nonqualified Savings Plan to be executed by its duly authorized officer this 24th day of December, 2019.

GERMAN AMERICAN BANCORP, INC.

By: 
Mark A. Schroeder
Chairman and Chief Executive Officer

Exhibit 10.17

GERMAN AMERICAN BANCORP, INC. MANAGEMENT LONG TERM INCENTIVE PLAN

Restricted Stock and/or Cash Award Grant Notice

German American Bancorp, Inc., an Indiana corporation (together with any successor thereto, the “Company”), pursuant to its Long Term Management Incentive Plan in effect for the current plan year, hereby grants to the below-listed participant (“Participant”) (a) the number of shares of Restricted Stock set forth below, which shares are being granted under the Company’s 2019 Long-Term Equity Incentive Plan, as amended from time to time (the “Equity Plan”), and/or (b) the right to receive cash payments in the aggregate amount set forth below (the “LTI Cash Right” and, together with the Restricted Stock, collectively, the “Award”). The Award is subject to all of the terms and conditions set forth herein and in the Award Agreement attached hereto as Exhibit A (the “Award Agreement”) and the Equity Plan, as applicable, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Equity Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant:

Global ID:

Award Type:

Plan Name:

Award Date:

Award Expiration Date:

Total Shares Granted:

Total Cash Granted (USD):

Vesting Schedule:

Shares/Cash Awarded

Vesting Date

By selecting the “**I Accept**” button, Participant agrees to be bound by the terms and conditions of the Equity Plan, the Award Agreement and this Grant Notice. Participant has reviewed the Award Agreement, the Equity Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Award Agreement and the Equity Plan. Participant (on behalf of Participant and Participant’s estate, including Participant’s personal representatives, guardians, executors and heirs) hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Company’s Board of Directors, or of any Committee thereof administering the Award, upon any questions arising under the Equity Plan, this Grant Notice or the Award Agreement.

**EXHIBIT A
TO AWARD GRANT NOTICE**

German American Bancorp. Inc. Award Agreement

Pursuant to the Grant Notice (the "Grant Notice") to which this Award Agreement (this "Agreement") is attached, German American Bancorp. Inc., an Indiana corporation (together with any successor thereof, the "Company"), has granted to Participant (a) Restricted Stock under the Company's 2019 Long-Term Equity Incentive Plan, as amended from time to time (the "Equity Plan"), and/or (b) the right to receive cash payments and credits (the "LTI Cash Right"), in each case as indicated in the Grant Notice.

Capitalized terms not specifically defined herein shall have the meanings specified in the Equity Plan and the Grant Notice, unless the context clearly indicates otherwise. The Restricted Stock is subject to the terms and conditions of the Equity Plan which is incorporated herein by reference. In the event of any inconsistency between the Equity Plan and this Agreement, the terms of the Equity Plan shall control.

1. Grant of Award. In consideration of Participant's employment with or service to the Company or a Subsidiary and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the "Grant Date"), the Company has granted to Participant (a) the Restricted Stock, upon the terms and conditions set forth in the Grant Notice, the Equity Plan and this Agreement, subject to adjustments as provided in Section 5.04 of the Equity Plan, and/or (b) the LTI Cash Right, upon the terms and conditions set forth in the Grant Notice and this Agreement.

2. Vesting of the Award. Subject to earlier forfeiture and cancellation pursuant to the Equity Plan and this Agreement and possible acceleration as provided by Article VI of the Equity Plan, Participant's rights to retain the Award (including the Restricted Stock and the LTI Cash Right) will vest in such amounts and on such dates as set forth in the Grant Notice (each such date, a "Vesting Date"), with such vesting being deemed to occur as of 12:01 A.M. Jasper time on the morning of the applicable Vesting Date. The period during which all or any portion of the Award is not vested shall be referred to herein as the "Restricted Period." The Compensation/Human Resources Committee of the Board of Directors of the Company, which administers the Equity Plan (the "Committee"), shall have the authority, in its sole judgment (which shall be conclusive and binding) to determine whether the conditions to vesting specified by this Agreement and the Equity Plan have been satisfied as of any Vesting Date or any other date, and to determine the exact amount(s) of shares of Restricted Stock and of the LTI Cash Right payment that is deemed to be vested and/or payable at any time. Subject to the terms of the Equity Plan, the Committee may also waive the provisions of Section 5 or otherwise shorten the Restricted Period as to any portion or all of the Award, and in connection with such actions may cause the Award to vest at an earlier date, whenever the Committee may determine that such action is appropriate by reason of changes in applicable tax or other laws or accounting principles or interpretations, or by reason of other changes in circumstances occurring after the Grant Date.

3. Participant's Rights in Award before Vesting. Except as otherwise provided in this Agreement, Participant shall have all the rights of a holder of Shares in respect of each of Participant's shares of Restricted Stock that are included in the Award during the Restricted Period, including, but not limited to, the right to receive all cash dividends paid on the Restricted Stock that are declared with a record date on or after the Grant Date and the right to vote the Restricted Stock on all matters to come for a vote by the holders of the Shares with a record date on or after the Grant Date. Participant shall have no right to receive any benefit with respect to any unvested LTI Cash Right during the Restricted Period.

4. Non-Certificated Nature of Restricted Stock during the Restricted Period. The Company has directed its registrar and transfer agent (the "Transfer Agent") to issue the shares of Restricted Stock in Participant's name as of the Grant Date, and to evidence the issuance of such shares of Restricted Stock to Participant by crediting the number of such shares of Restricted Stock to an account that has been established in Participant's name on the Transfer Agent's books. During the Restricted Period, the Company shall have no obligation to cause a certificate evidencing any of the shares of Restricted Stock (to the extent not yet vested) to be prepared or delivered. Any cash dividends payable in

respect of the Restricted Stock during the Restricted Period pursuant to Section 3 shall be paid to Participant in cash, unless Participant otherwise directs, in which event such dividends will be paid to such account as Participant directs.

5. Forfeiture and Cancellation of the Award in Certain Additional Cases

(a) *Continuing Employment Condition.* If Participant's period of continuing employment (the "Employment Period") with the Company and its Subsidiaries terminates during the Restricted Period otherwise than by reason of a Qualifying Circumstance (as defined below), the then-unvested portion of the Award (including the Restricted Stock and all associated property and rights, and the LTI Cash Right) shall be forfeited and cancelled effective as of the last day of the Employment Period. In the event of any forfeiture or cancellation of any portion of the Restricted Stock pursuant to this Section 5, such portion of Participant's shares of Restricted Stock shall be deemed to have been reacquired by the Company and cancelled effective as of the last day of the Employment Period, and Participant therefore shall not have the right to receive any cash dividends or other distributions with respect to such portion of the Restricted Stock that are declared with a record date after the Employment Period. If the Employment Period terminates during the Restricted Period by reason of a Qualifying Circumstance, the Award will be deemed to be fully earned and vested. In the event that the vesting of the Award is accelerated as a result of a Qualifying Circumstance, (i) the Restricted Stock portion of the Award will fully vest as of the effective date of the Qualifying Circumstance, and (ii) any portion of such Award that represents the LTI Cash Right will be paid to Participant (or Participant's estate, as applicable) within sixty (60) days following the effective date of the Qualifying Circumstance, but in no event later than March 15 of the year following such Qualifying Circumstance. The existence or non-existence of a Qualifying Circumstance, and the existence and effective date of any termination of the Employment Period, shall, in the event of any uncertainty or dispute, be determined for all purposes under the Equity Plan and this Agreement by the Committee, whose judgment on such matters shall be conclusive and binding.

(b) *Qualifying Circumstance.* For purposes of this Section 5, a "Qualifying Circumstance" means, with reference to the termination of Participant's employment with the Company and all Subsidiaries, one that occurs due to (i) Participant's death or disability (as determined by any disability policy or program maintained by the Company), or (ii) such other event or circumstance that the Committee specifically approves and designates as a Qualifying Circumstance.

(c) *Immediate Vesting Caused by an Extraordinary Event.* If an Extraordinary Event (as defined by Section 6.06(d) of the Equity Plan) occurs during the Restricted Period, and prior to the date of any forfeiture and cancellation of the Award, then all of the Vesting Dates of the Award shall be deemed to have been accelerated to the date of the Extraordinary Event, and the Award (including the Restricted Stock and the LTI Cash Right) shall be deemed fully non-restricted and non-forfeitable as of such date. In the event that the vesting of the Award is accelerated as a result of an Extraordinary Event, any portion of such Award that represents the LTI Cash Right will be paid to Participant within thirty (30) days of the occurrence of such Extraordinary Event.

(d) *Deemed Terminations (In Absence of Any Extraordinary Event).* For purposes of this Section 5, the Employment Period shall be deemed to terminate before the end of the Restricted Period, even if it does not actually so terminate, if, before the end of the Restricted Period, and before the occurrence of an Extraordinary Event (as defined by Section 6.06(d) of the Equity Plan), (i) Participant gives notice before the end of the Restricted Period to the Company or any of its Subsidiaries of the termination of Participant's association with them in all capacities (whether as a director, officer, employee or consultant), (ii) Participant takes any action before the end of the Restricted Period, such as accepting another position, that, in the judgment of the Committee, indicates that Participant plans to terminate his or her association with the Company and its Subsidiaries, or (iii) the Company and/or any of its Subsidiaries gives notice prior to the end of the Restricted Period to Participant that his or her association with them in all capacities (whether as a director, officer, employee or consultant) is being terminated. For the avoidance of doubt, Clauses (i), (ii) and (iii) concerning termination of association shall apply even if Participant's termination of association is planned or stated not to become effective until after the end of the Restricted Period and Participant's termination shall be deemed effective for purposes of this Section 5 as of the date of the notice or action described in Clauses (i), (ii), or (iii).

6. Non-Transferability. Prior to expiration of the Restricted Period, Participant may not sell, assign, transfer, pledge or otherwise encumber any of Participant's unvested rights under the Award, including the unvested portion of the Restricted Stock and of the LTI Cash Right.

7. Disclaimer of Employment Contract. Nothing contained in this Agreement shall be construed as an obligation of the Company or any of its Subsidiaries or any other person to retain Participant in its employ.

8. Securities Laws. The Company's obligation to issue to Participant, or to deliver to Participant any stock certificates evidencing, Shares hereunder shall, if the Committee so requests, be conditioned upon the Company's receipt of a representation by Participant as to Participant's investment intention, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of the Securities Act of 1933, as amended, or any other federal, state or local securities legislation. The Company shall not be required to deliver any certificates for shares under this Agreement or to issue any shares hereunder prior to (i) the admission of such shares to listing on any stock exchange on which the Shares may then be listed, and (ii) the completion of such registration or other qualification of such shares under any state or federal law, rule or regulation, as the Committee shall determine to be necessary or advisable.

9. Code Section 409A.

(a) The parties hereto intend that all benefits and payments to be made to the Participant hereunder will be provided or paid to him in compliance with all applicable provisions of Code Section 409A and the regulations issued thereunder, and the rulings, notices and other guidance issued by the Internal Revenue Service interpreting the same, and this Agreement shall be construed and administered in accordance with such intent. The parties also agree that this Agreement may be modified, as reasonably requested by either party, to the extent necessary to comply with all applicable requirements of, and to avoid the imposition of any additional tax, interest and penalties under, Code Section 409A in connection with, the benefits and payments to be provided or paid to the Participant hereunder. Any such modification shall maintain the original intent and benefit to the Company and the Participant of the applicable provision of this Agreement, to the maximum extent possible without violating Code Section 409A.

(b) All payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" under Code Section 409A. In no event may the Participant, directly or indirectly, designate the calendar year of a payment.

(c) Any payments hereunder that qualify for the "short-term deferral" exception or another exception under Code Section 409A shall be paid under the applicable exception.

(d) Notwithstanding the foregoing or anything to the contrary contained in any other provision of this Agreement, if the Participant is a "specified employee" at the time of his "separation from service" within the meaning of Code Section 409A, then any payment hereunder designated as being subject to Code Section 409A and this Subsection shall not be made until the first business day after (i) the expiration of six (6) months from the date of his separation from service, or (ii) if earlier, the date of his death (the "Delayed Payment Date"). On the Delayed Payment Date, there shall be paid to the Participant or, if he has died, to his estate, in a single cash lump sum, an amount equal to the aggregate amount of the payments delayed pursuant to the preceding sentence. The term "specified employee" shall mean any individual who, at any time during the twelve (12) month period ending on the identification date (as determined by the Company or its delegate), is a "specified employee" under Code Section 409A, as determined by the Company (or its delegate). The determination of "specified employees," including the number and identity of persons considered "specified employees" and identification date, shall be made by the Company (or its delegate) in accordance with the provisions of Sections 416(i) and 409A of the Code.

10. Tax and Other Withholding Obligations. The Company's obligation to pay or deliver to Participant the Restricted Stock and the LTI Cash Right payments that together constitute the Award shall be subject to the Company's compliance with applicable tax withholding and other required withholding or deductions, if any, with respect to the compensation realized by Participant as a result of having received the Award (including the non-cash compensation income that Participant may be deemed to realize for income tax purposes upon the lapsing of the restrictions upon all or any portion of the Award) including any deductions that may be required under the Company's

employee benefit plans (collectively, the “Withholding”). The Company intends to satisfy its Withholding with respect to any vesting or other taxable event with respect to the Award by charging the aggregate amount of the Withholding against the LTI Cash Right portion of the Award that may at such time otherwise be payable to Participant. In the event that the LTI Cash Right portion of the Award is greater than the aggregate amount of the Withholding, the Company shall, as soon as practicable following the Vesting Date, pay to Participant the excess amount, without interest. In the event that the LTI Cash Right portion of the Award is less than the aggregate amount of the Withholding, then the Company (a) shall have the right to adjust subsequent withholdings, and to withhold from other forms of compensation, in order to cover the deficiency, and/or (b) may require that Participant immediately “cover” the amount of such deficiency by (i) paying such amount to the Company in cash or (ii) by delivering to the Company Shares with a Fair Market Value equal to the amount of any such deficiency already owned by Participant for a period of at least six (6) months (or such longer or shorter period as may be required to avoid a charge to earnings for financial accounting purposes).

11. Potential Repayment Obligation.

(a) *Basis of Value of Award.* Participant acknowledges that the values of this Award (including the number of shares of Restricted Stock specified by this Agreement and the amount of the LTI Cash Right specified by this Agreement, which is a function of the Restricted Stock valued as of the Grant Date) have been determined by the Company under the Management Incentive Plan by reference, in part, to certain financial and operating metrics of the Company that are reflected by its financial statements or otherwise reported (publicly or internally) for some or all of the three years that ended on December 31 immediately prior to the Grant Date (the “Measurement Period”).

(b) *Automatic Forfeiture under Sarbanes-Oxley.* Participant further acknowledges and agrees that, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, and Participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, to the extent required by such Section 304, Participant shall reimburse the Company for (i) the amount of any Award received by such Participant during the 12-month period following the first public issuance or filing with the Securities and Exchange Commission, as the case may be, of the financial document embodying such financial reporting requirement, and (ii) any profits received from the sale of securities of the Company during that 12-month period.

(c) *Recovery under Other Applicable Law, Regulation or Listing Standards.* Participant further acknowledges and agrees that the Company shall be entitled to seek to recover from Participant all or any part of the Award, including any cash, stock, or other property received by Participant with respect to the Award, if and as required by the provisions of (or regulations adopted or to be adopted under) the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other “clawback requirement” imposed by applicable law or regulation or by the listing standards of NASDAQ, if the Company is required, regardless of fault (and even if Participant did not personally participate or assist in any fault), to restate its financial statements for any of the three fiscal year(s) included in the Measurement Period.

(d) *Repayment as a Result of Other Improper Conduct.* In addition to any repayment obligation that may be imposed upon Participant under paragraphs (b) and (c) of this Section,

- (i) if an Award has been paid to Participant or to his or her spouse or beneficiary, and the Committee later determines either (A) that financial results used to determine the amount of that Award must be materially restated and that Participant engaged in fraud or intentional misconduct related thereto, or (B) that recovery or repayment of the Award is required by applicable law, Participant, or his or her spouse or beneficiary, shall be required to transfer back to the Company (or repay the Company the amounts or value of any Shares or other securities or property or cash payments previously deemed vested for Participant’s account, or delivered or paid to Participant (or for Participant’s account), under this Agreement in respect of the Award, to the extent overpaid, notwithstanding any contrary provision of the Equity Plan; and

- (ii) the Company may also (by written notice delivered to Participant at any time on or before the third anniversary of the Grant Date) (A) cancel any or all of the unvested or unpaid portion of the Award that has not previously been forfeited or cancelled under this Agreement, and (B) require that Participant or Participant's spouse or beneficiary (if applicable) transfer back to the Company (or repay the Company the amounts or value of) (I) any Shares or other securities or property or cash payments previously vested for Participant's account, or delivered or paid to Participant (or for Participant's account), under this Agreement in respect of the Award or (II) previously deemed earned or vested under this Agreement, where, in the sole judgment of the Committee, Participant has (x) engaged in fraud or intentional misconduct in the performance of Participant's duties to the Company, (y) been indicted or charged with any criminal violation, regardless of whether in connection with Participant's duties to the Company (other than minor traffic violations not involving use of intoxicants or possession of illegal substances), or (z) violated Participant's duties to the Company under the Company's Code of Business Conduct in any material respect.

Further, the Committee may also impose additional repayment, recoupment or "clawback" obligations upon Participant with respect to all or any portion of the Award, any other payments of cash, stock, or other property or any other deliveries of securities made by or on behalf of the Company to Participant with respect to any component of this Award (including any payments or deliveries of shareholder dividends or distributions or other cash or other property in respect of securities previously credited or delivered to Participant under this Award), whenever the Committee may determine that such action is appropriate by reason of applicable securities, banking, tax or other laws, exchange listing standards, or accounting principles or interpretations (regardless of whether such laws, principles or interpretations have been changed since the Grant Date), by reason of changes in circumstances occurring after the Grant Date, or by reason of the Committee's subsequent discovery of any error or other miscalculation by the Committee in its determination of the amount of Award issuable or payable to Participant hereunder.

(e) *Committee Authority and Participant's Acceptance thereof.* The Committee shall have authority, in its sole judgment (which shall be conclusive and binding upon Participant), to determine whether Participant is obligated to the Company under this Section 11 to return or repay any portion of the Award previously granted and/or paid or delivered to Participant, and to determine the exact amount(s) of any such return or repayment obligation under this Section and the procedures and currencies for any such return. By accepting this Award, Participant also accepts the Committee's authority under this Agreement to make final and binding determinations with respect to all issues pertaining to the existence and amount(s) of Participant's repayment obligation(s) under this Agreement.

(f) *Interest, Fees and Tax Reporting.* If Participant fails to satisfy any obligation to the Company established or claimed by the Company under this Section in full by the due date stated for satisfaction of such obligation, then Participant shall also pay to the Company interest on the fair value of such obligation from such due date until paid in full at a rate of interest equal to the prevailing national "prime rate" of interest on such due date plus an amount equal to the reasonable attorneys' fees incurred by the Company in collecting amounts due from Participant under this Section. After shares or payments have been transferred (and/or paid) back to the Company as may be required pursuant to this Section 11, the Company shall file such federal and state tax returns or amended returns, amended W-2 forms, or other tax filings as shall be required of it by applicable law or as reasonably requested by Participant with respect to all excess income and FICA taxes withheld and/or paid by the Company in connection with or attributable to the such transfers or payments back to the Company.

12. Amendment of Awards. The Committee may unilaterally amend the terms of this Award Agreement, except that no such amendment may materially impair the rights of Participant under the Award without Participant's consent, unless such amendment is necessary to comply with applicable law, stock exchange rules or the provisions of Section 11.

Exhibit 10.18

GERMAN AMERICAN BANCORP, INC. DIRECTOR COMPENSATION PROGRAM

Restricted Stock Award Grant Notice

German American Bancorp, Inc., an Indiana corporation (together with any successor thereto, the “Company”), pursuant to its director compensation program in effect for the current July 1 to June 30 service period, hereby grants to the below-listed director participant (“Participant”) the number of shares of Restricted Stock set forth below (the “Award”), which shares are being granted under the Company’s 2019 Long-Term Equity Incentive Plan, as amended from time to time (the “Equity Plan”). The Award is subject to all of the terms and conditions set forth herein and in the Award Agreement attached hereto as Exhibit A (the “Award Agreement”) and the Equity Plan, as applicable, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Equity Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant:

Award Date:

Total Shares Granted:

Vesting Schedule:

Shares

Vesting Date

By selecting the “**I Accept**” button, Participant agrees to be bound by the terms and conditions of the Equity Plan, the Award Agreement and this Grant Notice. Participant has reviewed the Award Agreement, the Equity Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Award Agreement and the Equity Plan. Participant (on behalf of Participant and Participant’s estate, including Participant’s personal representatives, guardians, executors and heirs) hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Company’s Board of Directors, or of any Committee thereof administering the Award, upon any questions arising under the Equity Plan, this Grant Notice or the Award Agreement.

EXHIBIT A TO AWARD GRANT NOTICE

German American Bancorp, Inc. Award Agreement

Pursuant to the Grant Notice (the “Grant Notice”) to which this Award Agreement (this “Agreement”) is attached, German American Bancorp, Inc., an Indiana corporation (together with any successor thereof, the “Company”), has granted Restricted Stock to Participant under the Company’s 2019 Long-Term Equity Incentive Plan, as amended from time to time (the “Equity Plan”), as indicated in the Grant Notice.

Capitalized terms not specifically defined herein shall have the meanings specified in the Equity Plan and the Grant Notice, unless the context clearly indicates otherwise. The Restricted Stock is subject to the terms and conditions of the Equity Plan which is incorporated herein by reference. In the event of any inconsistency between the Equity Plan and this Agreement, the terms of the Equity Plan shall control.

1. Grant of Award. In consideration of Participant's service as a director of the Company and certain of its Subsidiaries, and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the "Grant Date"), the Company has granted to Participant the Restricted Stock, upon the terms and conditions set forth in the Grant Notice, the Equity Plan and this Agreement, subject to adjustment as provided in Section 5.04 of the Equity Plan.

2. Vesting of the Award. Subject to earlier forfeiture and cancellation pursuant to the Equity Plan and this Agreement and possible acceleration as provided by Article VI of the Equity Plan, Participant's rights to retain the Award (including the Restricted Stock) will vest in such amounts and on such dates as set forth in the Grant Notice (each such date, a "Vesting Date"), with such vesting being deemed to occur as of 12:01 A.M. Jasper time on the morning of the applicable Vesting Date. The period during which all or any portion of the Award is not vested shall be referred to herein as the "Restricted Period." The Board of Directors of the Company, by the vote (or written consent in lieu thereof) of not fewer than a majority of the members thereof then in office (other than the Participant) who are independent directors for purposes of the Nasdaq independence rules and who are "non-employee directors" as defined for purposes of the rules of the Securities and Exchange Commission under Section 16 of the Securities Exchange Act of 1934, as amended (the "Independent Directors"), shall have the authority, in its sole judgment (which shall be conclusive and binding), to determine whether the conditions to vesting specified by this Agreement and the Equity Plan have been satisfied as of any Vesting Date or any other date, and to determine the exact amount of shares of Restricted Stock that is deemed to be vested at any time. Subject to the terms of the Equity Plan, the Board of Directors, by action of the Independent Directors, may also waive the provisions of Section 5 or otherwise shorten the Restricted Period as to any or all of the Award, and in connection with such actions may cause the Award to vest at an earlier date, whenever the Board of Directors by the above-described vote may determine that such action is appropriate by reason of changes in applicable tax or other laws or accounting principles or interpretations, or by reason of other changes in circumstances occurring after the Grant Date.

3. Participant's Rights in Award before Vesting. Except as otherwise provided in this Agreement, Participant shall have all the rights of a holder of Shares in respect of each of Participant's shares of Restricted Stock that are included in the Award during the Restricted Period, including, but not limited to, the right to receive all cash dividends paid on the Restricted Stock that are declared with a record date on or after the Grant Date and the right to vote the Restricted Stock on all matters to come for a vote by the holders of the Shares with a record date on or after the Grant Date.

4. Non-Certificated Nature of Restricted Stock during the Restricted Period. The Company has directed its registrar and transfer agent (the "Transfer Agent") to issue the shares of Restricted Stock in Participant's name as of the Grant Date, and to evidence the issuance of such shares of Restricted Stock to Participant by crediting the number of such shares of Restricted Stock to an account that has been established in Participant's name on the Transfer Agent's books. During the Restricted Period, the Company shall have no obligation to cause a certificate evidencing any of the shares of Restricted Stock (to the extent not yet vested) to be prepared or delivered. Any cash dividends payable in respect of the Restricted Stock during the Restricted Period pursuant to Section 3 shall be paid to Participant in cash, unless Participant otherwise directs, in which event such dividends will be paid to such account as Participant directs.

5. Forfeiture and Cancellation of the Award: Accelerated Vesting in Certain Cases.

(a) Continuing Board Service and Meeting Attendance Conditions. If Participant should not continue in service to the Company and its Subsidiaries or affiliates as a director through December 31 of the year following the year in which this grant was made for any reason other than Participant's death or disability, the Award (including the Restricted Stock and all associated property and rights) shall be fully forfeited and cancelled. Furthermore, if Participant (i) fails to attend (for any reason other than disability) in person at least seventy-five percent (75%) of the aggregate number of meetings of the Company's Board of Directors and the other corporate, Subsidiary or affiliate boards and committees on which Participant may be (from time to time) a member during the period of January 1 through December 31 of the year following the year in which this grant was made, or (ii) fails to attend (other than by reason of disability, illness or bona fide emergency as determined in the sole discretion of the Company's lead independent director) the Company's annual meeting of shareholders held in the year following the year in which this grant was made, the Award (including Participant's Restricted Stock and all associated property and rights) shall be subject to a 50% forfeiture and cancellation. Each of the circumstances set forth above (i.e., failure to fulfill a service or attendance requirement) that results in a forfeiture of the Award (including Participant's Restricted Stock and all associated property and rights) shall be referred to herein as a "Disqualifying Circumstance" and the date of the last fact that establishes the existence of a Disqualifying Circumstance shall be referred to herein as the "Disqualification Date." In the event of any forfeiture or cancellation of any portion of the Restricted Stock pursuant to this Section 5, such portion of Participant's shares of Restricted Stock shall be deemed to have been reacquired by the Company and cancelled effective as of the Disqualification Date (regardless of the date on which the Board of Directors makes a determination as to the existence of a Disqualifying Circumstance), and Participant therefore shall not have the right to receive any cash dividends or other distributions with respect to the Restricted Stock that are declared with a record date after the Disqualification Date. The existence or non-existence of a Disqualifying Circumstance (and the date of the associated Disqualification Date) shall, in the event of any uncertainty

or dispute, be determined for all purposes under the Equity Plan and this Award Agreement by the Board of Directors (by vote or consent as provided by Section 2), whose judgment on such matters shall be conclusive and binding.

(b) *Immediate Vesting Caused by an Extraordinary Event.* If an Extraordinary Event (as defined by Section 6.06(d) of the Equity Plan) occurs during the Restricted Period, and prior to the date of any forfeiture and cancellation of the Award, then all of the Vesting Dates of the Award shall be deemed to have been accelerated to the date of the Extraordinary Event, and the Award shall be deemed fully non-restricted and non-forfeitable as of such date.

6. Non-Transferability. Prior to expiration of the Restricted Period, Participant may not sell, assign, transfer, pledge or otherwise encumber any of Participant's unvested rights under the Award, including the unvested portion of the Restricted Stock.

7. Disclaimer of Contract. Nothing contained in this Agreement shall be construed as an obligation of the Company or any of its Subsidiaries or any other person to retain Participant as a member of the Company's Board of Directors, or in any other capacity.

8. Securities Laws. The Company's obligation to issue to Participant, or to deliver to Participant any stock certificates evidencing, Shares hereunder shall, if the Board of Directors so requests, be conditioned upon the Company's receipt of a representation by Participant as to Participant's investment intention, in such form as the Board of Directors shall determine to be necessary or advisable to comply with the provisions of the Securities Act of 1933, as amended, or any other federal, state or local securities legislation. The Company shall not be required to deliver any certificates for shares under this Agreement or to issue any shares hereunder prior to (i) the admission of such shares to listing on any stock exchange on which the Shares may then be listed, and (ii) the completion of such registration or other qualification of such shares under any state or federal law, rule or regulation, as the Board of Directors shall determine to be necessary or advisable.

9. Tax and Other Withholding Obligations. The Company's obligation to pay or deliver to Participant the Restricted Stock that constitutes the Award shall be subject to the Company's compliance with applicable tax withholding and other required withholding or deductions, if any, with respect to the compensation realized by Participant as a result of having received the Award (including the non-cash compensation income that Participant may be deemed to realize for income tax purposes upon the lapsing of the restrictions upon all or any portion of the Award) including any deductions that may be required under the Company's employee benefit plans (collectively, the "Withholding"). The Company may satisfy any such Withholding or other obligation by withholding from the Restricted Stock otherwise deliverable to Participant such number of shares as would have at such time a Fair Market Value equal to the amount of such obligation.

10. Potential Repayment Obligation.

(a) *Basis for Award.* Participant acknowledges that the Company's decision to make the Award (including the number of shares of Restricted Stock specified by this Agreement) has been based, in part, on certain financial and operating metrics of the Company that are reflected by its financial statements or otherwise reported (publicly or internally).

(b) *Recovery or Repayment under Applicable Law, Regulation or Listing Standards.* Participant further acknowledges and agrees that the Company shall be entitled to seek to recover from Participant all or any part of the Award, including any cash, stock, or other property received by Participant with respect to the Award, if and as required by any repayment, recoupment or "clawback" provisions of applicable securities, banking, tax or other laws and regulations, exchange listing standards, or accounting principles or interpretations (regardless of whether such laws, regulations, principles or interpretations have been changed since the Grant Date).

(c) *Board of Directors Authority and Participant's Acceptance thereof.* The Board of Directors (by vote or consent as provided by Section 2) shall have authority, in its sole judgment (which shall be conclusive and binding upon Participant), to determine whether Participant is obligated to the Company under this Section 10 to return or repay any portion of the Award previously granted and/or paid or delivered to Participant, and to determine the exact amount(s) of any such return or repayment obligation under this Section and the procedures for any such return. By accepting this Award, Participant also accepts the authority of the Board of Directors (acting through a majority as provided by Section 2) under this Agreement to make final and binding determinations with respect to all issues pertaining to the existence and amount(s) of Participant's repayment obligation(s) under this Agreement.

(d) *Interest, Fees and Tax Reporting.* If Participant fails to satisfy any obligation to the Company established or claimed by the Company under this Section in full by the due date stated for satisfaction of such obligation, then Participant shall also pay to the Company interest on the fair value of such obligation from such due date until paid in full at a rate of interest equal to the prevailing national "prime rate" of interest on such due date plus an amount equal to

the reasonable attorneys' fees incurred by the Company in collecting amounts due from Participant under this Section. After shares or payments have been transferred (and/or paid) back to the Company as may be required pursuant to this Section 10, the Company shall file such federal and state tax returns or amended returns, amended W-2 forms, or other tax filings as shall be required of it by applicable law or as reasonably requested by Participant with respect to all excess income and FICA taxes withheld and/or paid by the Company in connection with or attributable to the such transfers or payments back to the Company.

11. Amendment of Awards. The Board of Directors (by vote or consent as provided by Section 2) may unilaterally amend the terms of this Award Agreement, except that no such amendment may materially impair the rights of Participant under the Award without Participant's consent, unless such amendment is necessary to comply with applicable law, stock exchange rules or the provisions of Section 10.

SUBSIDIARIES OF THE REGISTRANT
(AS OF MARCH 2, 2020)

<u>Name of Subsidiary</u>	<u>State/Jurisdiction of Incorporation/Organization</u>	<u>Other Names under which Subsidiary Does Business</u>
German American Bancorp	Indiana	
GAB Investment Company, Inc.	Nevada	
GAB Investment Center, Inc.	Nevada	
GAB Investments, LLC	Nevada	
GAB Capital Funding Corp.	Nevada	
GAB Funding Corp.	Maryland	
First Title Insurance Company	Indiana	
GABC Leasing, Inc.	Indiana	
GABC Holdings, Inc.	Indiana	
GABC Development Corporation	Indiana	
German American Investment Services, Inc.	Indiana	
German American Insurance, Inc.	Indiana	
Allied Premium Finance Company	Indiana	
GABC Risk Management, Inc.	Nevada	
German American Reinsurance Company, Ltd.	Turks and Caicos Islands	
Financial Services of Southern Indiana, Inc.	Indiana	
ACB Capital Trust I	Delaware	
ACB Capital Trust II	Delaware	
Madison 1st Service Corporation	Indiana	
RIVR Statutory Trust I	Connecticut	
FS Realty Holding, LLC	Indiana	
Citizens First Statutory Trust I	Delaware	

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements No. 333-232405 on Form S-8, and No. 333-223983 and No. 333-157277 on Forms S-3 of German American Bancorp, Inc. of our report dated March 2, 2020 relating to the consolidated financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of German American Bancorp, Inc. for the year ended December 31, 2019.

/s/ Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 2, 2020

Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman and Chief Executive Officer

I, Mark A. Schroeder, Chairman and Chief Executive Officer of German American Bancorp, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of German American Bancorp, Inc. (the "registrant"):
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

March 2, 2020

Date

/s/ Mark A. Schroeder

Mark A. Schroeder

Chairman and

Chief Executive Officer

Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer

I, Bradley M. Rust, Executive Vice President and Chief Financial Officer of German American Bancorp, Inc. certify that:

1. I have reviewed this Annual Report on Form 10-K of German American Bancorp, Inc., (the “registrant”):
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

March 2, 2020

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)

Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman and Chief Executive Officer

I, Mark A. Schroeder, Chairman and Chief Executive Officer of German American Bancorp, Inc. certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that:

- (1) the Annual Report on Form 10-K for the year ended December 31, 2019, (the “Periodic Report”) which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.

March 2, 2020

Date

/s/ Mark A. Schroeder

Mark A. Schroeder

Chairman and

Chief Executive Officer

Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer

I, Bradley M. Rust, Executive Vice President and Chief Financial Officer of German American Bancorp, Inc. certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that:

- (1) the Annual Report on Form 10-K for the year ended December 31, 2019, (the “Periodic Report”) which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.

March 2, 2020

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)